DEPARTMENT OF DEFENSE APPROPRIATIONS FOR 1959

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HEARINGS

BEFORE THE

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON DEPARTMENT OF DEFENSE APPROPRIATIONS

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SAMUEL W. CROSBY, *Staff Assistant to the Subcommittee*

PROCUREMENT, SUPPLY, AND SURPLUS OPERATIONS OF THE DEPARTMENT OF DEFENSE

Printed for the use of the Committee on Appropriations

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UNITED STATES OF AMERICA

DEPARTMENT OF DEFENSE APPROPRIATIONS FOR 1959

TUESDAY, APRIL 15, 1958.

PROCUREMENT, SUPPLY, AND SURPLUS OPERATIONS OF THE DEPARTMENT OF DEFENSE

WITNESSES

HON. PERKINS McGUIRE, ASSISTANT SECRETARY OF DEFENSE (SUPPLY AND LOGISTICS)
REAR ADM. J. W. BOUNDY, SC, USN, DIRECTOR SUPPLY MANAGEMENT POLICY
G. C. BANNERMAN, DIRECTOR, PROCUREMENT POLICY
HON. F. H. HIGGINS, ASSISTANT SECRETARY OF THE ARMY (LOGISTICS)
MAJ. GEN. DAVID W. TRAUB, DIRECTOR OF BUDGET, OFFICE OF COMPTROLLER OF THE ARMY
BRIG. GEN. JEAN E. ENGLER, DIRECTOR OF PROCUREMENT, OFFICE OF THE DEPUTY CHIEF OF STAFF, LOGISTICS
COL. ARTHUR J. WATSON, DEPUTY CHIEF, STORAGE AND DISTRIBUTION DIVISION, OFFICE OF THE DEPUTY CHIEF OF STAFF, LOGISTICS
HON. FRED A. BANTZ, ASSISTANT SECRETARY OF THE NAVY (MATERIAL)
VICE ADM. E. W. CLEXTON, USN, CHIEF OF NAVAL MATERIAL
REAR ADM. R. J. ARNOLD, SC, USN, CHIEF, BUREAU OF SUPPLIES AND ACCOUNTS
REAR ADM. R. E. DIXON, USN, CHIEF, BUREAU OF AERONAUTICS
HON. DUDLEY C. SHARP, ASSISTANT SECRETARY OF THE AIR FORCE (MATERIEL)
HON. M. GOLDEN, DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (MATERIEL)
MAJ. GEN. FREDERICK J. DAU, DIRECTOR OF SUPPLY, HEADQUARTERS, AIR MATERIEL COMMAND
BRIG. GEN. R. J. FRIEDMAN, DEPUTY DIRECTOR OF BUDGET, COMPTROLLER HQS, USAF
COL. R. B. UHLE, DEPUTY DIRECTOR OF PROCUREMENT AND PRODUCTION, MATERIEL HQS, USAF

Mr. MAHON. The Committee will please come to order.

We have met here today to give consideration to procurement problems of the Department of Defense.

As you know, the Committee has had staff studies made at considerable trouble and expense and is holding hearings on them as a part of our review of the fiscal year 1959 money requirements for the Department of Defense, as a public service and in an attempt to report

to those interested on how well our Defense Establishment is doing in these very important areas of the total defense program.

Nearly half of our total defense budget goes for what is commonly referred to as the procurement of goods; that is, equipment, materials, and supplies.

It is reported that these supply systems within the Department of Defense establishment contain over 3 million individual items with an inventory value at any particular time of over $50 billion. This is the biggest business in the world, many times greater than any single private organization or group of private organizations.

CRITICISMS OF DEFENSE PROCUREMENT

The staff report points up a number of areas in which it is expected that there should be continuing improvement in the expenditure of these vast sums of public moneys for procurement and in the management of properties and supplies. I expect that you will deal with most of these in your statement, however, I believe that I should perhaps mention several.

SOLE SOURCE PROCUREMENT

We continue to have criticism in the procurement field resulting from the lack of true competition that is normally obtained through competitive bidding, but there is particular emphasis in the procurement phase of this report on the tendency of the services to rely too much on what is called sole source procurement. It appears that because it is much easier to do it that way than by putting out detailed drawings and specifications from which competitive manufacturers may be able to produce the required pieces of equipment, the services continue to buy from single sources.

SINGLE-MANAGER CONCEPT

The single-manager concept of supply procurement about which much has been said in previous years appears to have been neglected since no new assignments have been made since 1956. There is evident disagreement between the Services as to which one should be the single manager for the procurement of various types of supplies. There also appears to be a lack of progress in the so-called interservice supply field; that is, in the buying by one Service from another.

PROCUREMENT OF OBSOLETE EQUIPMENT

It is reported that contracts are not being terminated promptly when requirements for a particular object change, and, as a result, excessive quantities of obsolete equipment and items are being procured.

That is an old criticism, but I am afraid it is still somewhat valid. The Air Force is particularly criticized for maintaining over-age aircraft at bases throughout the world for what appears to be no other purpose than merely the maintenance of a proficiency flying capability in these over-age craft.

PURPOSE OF INQUIRY

In previous years we have had service comments on criticisms contained in such staff reports. The services have taken each of the items criticized and have generally attempted to explain them away, or, in other words, put their best foot forward. This, of course, is a natural tendency. They should not be criticized for it. However, it is impossible for the Committee to explore all of these areas thoroughly, short of spending several weeks in such hearings. That, of course, is not the purpose of our hearings because we could not legislate away the difficulties in any event. It would be a farce to assume that we were going to be that thorough. It would be impossible. This committee makes these inquiries to determine how well things are being managed in the Department of Defense and the services will take positive action to make any improvements necessary to get a better job done.

The Committee wants to help get a good job done in this area for the Nation and the taxpayers. We want to get more defense for the tax dollar which the Congress appropriates for this purpose. We recognize that it is easy to criticize but most difficult to operate a $40 billion establishment. It is not humanly possible to avoid all mistakes and we want to get more defense for the tax dollar which Congress appropriates from year to year. That is the reason behind our studies. As you very well know, this is not a headline-hunting committee and these studies are made for the use of the Committee and the Congress and for the benefit of the services. We do not want to harass Defense officials but we do expect that there will be future studies made to see if we are continuing to improve in the various areas studied.

We want perfection, although, being realistic about it, we know that we will never fully attain it.

Along this line, I would like to read to you a little quotation from the Army-Navy Journal of 50 years ago:

> (February 8, 1908) The whole system of regulating contracts for the purchase of materials for the military services is cumbersome and vexatious, not only to the officers in charge of such transactions, but to civilian bidders. Reputable business firms have more than once withdrawn their proposals rather than submit to absurd conditions imposed by the Government in preparing contracts.

That is an interesting angle which Mr. Crosby has pointed out to me.

HEARING PROCEDURES

We have had some discussions as to how we will proceed, but for the record, what is the proposal, General Moore?

General MOORE. Mr. Chairman, we have this morning the Assistant Secretary of Defense for Supply and Logistics and he is accompanied by the Assistant Secretaries of the Army, Navy, and Air for Materiel.

The Assistant Secretary of Defense has a rather comprehensive statement and then the Secretaries of the Army, Navy, and Air have statements averaging eight pages. They are very short statements.

I suggest that it would be interesting for the Committee to hear at least Secretary McGuire's statement and it might also be well to have the short 8-page statements read.

I might add, Mr. Chairman, that we appreciate very much the opportunity to have these reports and to be permitted to prepare comments which have already been submitted to the Committee.

These statements which I refer to are in addition to those comments.

Mr. MAHON. We will have the record properly arranged so that it will be understandable to the Committee and to the Congress. I leave that matter to the staff and officials of the Defense Department to handle.

(The investigative reports and the comments thereto submitted by the Services will be found starting on p. 156.)

Mr. McGuire, will you proceed?

GENERAL STATEMENT OF ASSISTANT SECRETARY OF DEFENSE FOR SUPPLY AND LOGISTICS

Mr. MCGUIRE. Mr. Chairman and members of the Committee, I am Perkins McGuire, Assistant Secretary of Defense for Supply and Logistics. With your permission, I should like to make a statement regarding the responsibilities of my office and highlight those points which cover major progress during the past year. Also, I should like to discuss certain points of the report on procurement, supply and surplus prepared by your surveys and investigations staff.

Appearing with me today are the Assistant Secretaries of the Army, Navy, and Air Force, who are prepared to make statements regarding their own offices.

RESPONSIBILITIES OF THE ASSISTANT SECRETARY OF DEFENSE (SUPPLY AND LOGISTICS)

As you know, the Assistant Secretary of Defense (Supply and Logistics) is responsible to the Secretary of Defense for developing policies and plans for Department of Defense activities in the fields of materiel requirements, purchasing and contracting, inventory control, storage, distribution and disposal, production, inspection and quality control, cataloging, standardization, transportation, communications, petroleum logistics, and the effects of these on mobilization planning. A primary objective is to improve the logistics activities among the military departments, thereby eliminating unnecessary duplication of effort and expenditure, and attaining maximum utilization of all Department of Defense assets.

I am happy to note that the staff has observed that we have made progress in overcoming weaknesses pointed out in the past.

The following are some of our accomplishments:

INTERSERVICE MATERIEL UTILIZATION AGENCY

For a number of years, concurrent buying and selling of materiel has been a problem. At times, items have been disposed of as excess by one service while another service may have been purchasing the same materiel.

In the past year, we have taken further steps, which I believe, will reduce the possibility of such occurrences. Probably the most important step is that we have reorganized the Materiel Redistribution Division consolidating it with other activities by the issuance of Department of Defense Instruction 4140.12, Utilization of Department

of Defense Materiel Assets, renaming it Interservice Materiel Utilization Agency. As you will remember, the Materiel Redistribution Division was only responsible for screening excess property for utilization. Under the reorganization which took place in December, functions for which the Agency is responsible have been broadened and its potential effectiveness has been increased considerably.

As in the past, all reportable excess property must be reported for screening. Now, in addition to the screening of excess property, the program covers screening of procurement against total inventories to determine the possibility of effecting utilization of available assets in lieu of new procurement.

Mandatory rules have been set under which all proposed procurements of interserviceable items, over certain dollar values, must be screened against available stocks of all services before the procurement is authorized. As the full potential of this program is realized, there will be significant economies achieved through reduction in inventories, storage costs, and transportation costs.

UNIFORM FORMS AND REPORTS

Standard forms are important to good interservice operations. Last year we reported progress on this and I am happy to inform you that implementation of the program has established that 28 standard supply operating forms now have replaced 120 departmental forms effective July 1, 1957. These forms, by and large, cover the functions of receiving, shipping, and invoicing. We are continuing this program in other supply areas.

FEDERAL CATALOG CONVERSION PROGRAM NEARING COMPLETION

The military departments will have completed the conversion to the use of Federal catalog data in all commodity areas before the scheduled date of December 31, 1958. As of this time, the changeover is approximately 90 percent completed.

Upon completion of the conversion operation, each service will use the same number to identify the same item of supply. Consequently this will increase the potential for interservicing and supply management improvement.

There has been much discussion of the Federal catalog program pro and con. It has been my pleasure to arrange for special briefings for a number of knowledgeable people in this field on what we are doing. Generally, their reactions have been most favorable. I will be glad to arrange such a briefing for any members of this committee or their staffs who would care to see such a briefing.

STANDARDIZATION

We have adopted a new technique for common everyday items where standardization need not await engineering decisions. We no longer set up interservice committees to standardize these items. We delegate to one of the departments the responsibility and authority to decide which items in specific groups will be used by all of the military departments. This approach was developed last fall and formalized in my memorandum of January 10, 1958, to the services on accelerated items reduction program. Initial results indicate

we will be able to make substantial reductions in the numbers of items carried. As an example of the potential of this program, in a recent review we found 42 items which probably can be reduced to 3 standard items.

REDISTRIBUTION OF PRODUCTION EQUIPMENT

We maintain an inventory of machine tools that are in the hands of the services. Last year we located and furnished to defense contractors more than 5,000 items of production equipment worth over $60 million. Thus, we avoided the purchase of new machine tools. Not only were there savings but there was no time lost waiting for manufacturers to build this equipment.

LOGISTICS SYSTEMS STUDY PROJECT

Last fall we initiated an overall study of our logistics systems. I believe it is one of the most extensive studies ever undertaken in this field. Personnel to man the project is supplied by the Office of the Secretary of Defense, the military services, and the Bureau of the Budget. Working full time, they are assembling facts, evaluating them, and are developing constructive recommendations to improve the efficiency of our systems. So far, the teams have reviewed the commodity single manager assignments, the interservice supply support program, single department procurement, and have considered the merits and feasibility of a number of other supply plans that have been proposed from time to time.

We are presently working on what we call management of common logistics services (phase II). Before we complete this project we will cover the management of technical items of supply (phase III). These studies have been very informative and worth while. Their results are now being correlated to permit specific action to be taken on them.

Staff Report

With your permission, I should like to discuss the report on procurement, supply, and surplus operations made by your investigating staff.

In its discussion, your staff points out its efforts to conduct an objective survey and makes it clear that such a survey cannot result in complete endorsement or complete condemnation of the programs of the services. We appreciate the fair, careful, and objective manner in which the staff has presented its findings and believe them to be valuable and constructive.

Part I. Procurement Study

THE ARMED SERVICES PROCUREMENT REGULATION AND ITS IMPLEMENTATION

1. COST PRINCIPLES

The staff points out the substantial progress which has been made in ASPR during the past year through the issuance of price negotiation policies and techniques, the resolution of the procurement-audit controversy, and the clarification of the policy with respect to sub-

contracts. The staff report mentions that we are still lacking in uniform cost principles which can be used with respect to all types of contracts in which costs are a factor.

During the past year, a great deal of effort has been devoted to the problem of developing a uniform set of cost principles. Many differing opinions among activities within the Department have been resolved and a proposed uniform set of cost principles was transmitted to industry for comment on October 14, 1957. Replies have now been received from the greatest practicable number of interested industry groups and these comments are currently being analyzed by our staff. Following this analysis, a discussion of the cost principles will be held with industry; then we plan to issue the principles as part of the Armed Services Procurement Regulation.

The staff report also notes a lack of uniform policy guidance as to the profit to be allowed in negotiated contracts with contractors whose work is predominantly for the Government. It recommends that there be a specific profit range for use in such contracts, citing the aircraft industry as one example. A profit policy stated in terms of concepts is contained in part 8 of section III of the Armed Services Procurement Regulation (ASPR 3–807(c) and ASPR 3–808.4). We feel that policy guidance in the field of profit allowance must be stated in rather general terms since the factors affecting a reasonable rate of profit vary in each contract. Within the aircraft industry, for instance, there are wide variations in the factors which determine a reasonable rate of profit such as in the extent of Government assistance, in the risks assumed by these contractors, and in the efficiency with which contracts are performed. Accordingly, we do not feel that it would be appropriate to establish any specific profit range applicable to this or other industries. In this connection, the Congress has recognized in the Renegotiation Act the factors which determine a reasonable rate of profit. These include the risks undertaken by the contractor, extent of Government assistance, the contribution to the defense effort, the efficiency with which the contract was performed, and the nature of the contractor's business.

2. IMPLEMENTATION OF THE ARMED SERVICES PROCUREMENT REGULATION

The staff recommends that the implementation of ASPR at lower levels be kept at a minimum. We agree with this staff recommendation, and our efforts will be to this end. It is obviously essential, however, that there be lower level implementations of ASPR since ASPR cannot be keyed to the organization and procedural problems of each of the services and the branches thereof. ASPR creates responsibilities. The services must determine who shall assume these responsibilities and frequently how they shall be carried out.

B. ADVERTISED PROCUREMENT

1. EXTENT OF ADVERTISED PROCUREMENT

The staff report lists the ratio of formally advertised procurement by dollars to total procurement in the three military departments. The report properly points out that, although the percentage of total

procurement which is advertised seems relatively small, there are many kinds of procurement which are negotiated where the services have no choice but to negotiate. No figures are given due to the present lack of a reporting system to reflect these facts.

It is the considered opinion of those in the services that something over 60 percent of all of the dollars spent on contracting cover supplies or services which everyone would agree could under no circumstances be bought through formal advertising. We agree with the staff's comment on the necessity for improvement in the reporting system and are currently developing a revision of our reports to show the extent of competition and, where applicable, the reasons why negotiation was required in situations where competition existed.

2. QUALIFICATIONS OF PROPOSED SUPPLIERS

The staff report cites a number of cases in which the services, usually at the local level, had determined that prospective suppliers were unqualified to undertake contracts on which they were low bidder. In these cases, award was nevertheless made to such firms after the issuance of the certificates of competency by the Small Business Administration.

The report points out that the services have carefully worked out programs of contractor evaluation through preaward surveys and that recommendations for disqualification which stem from these surveys are made with extreme care after thorough investigation.

The staff recommends that more adequate consideration be given at headquarters level to recommendations for disqualification made by field activities and that, where necessary, appeals be taken from the certificates of competency issued by the Small Business Administration.

We believe that the staff recognizes that, as a matter of law, Defense procurement officials are required to accept final decisions on Small Business Administration certificates of competency as conclusive proof of the competence of firms so certified and that contracting officers may not refuse an award to such concerns for lack of competence. This is set forth in section 213a of the Small Business Administration Act of 1955.

In practice, Small Business Administration representatives work very closely with contracting officers in offices throughout the country and with the headquarters staffs of such offices. Further, the military departments have established procedures for requesting reconsideration by the Small Business Administration in instances where the contracting officers and the Small Business Administration do not agree on the competency of a firm and a certificate of competency has been issued by the Small Business Administration.

On this specific point raised in the staff report to the effect that the contracting officer, even though disagreeing with the position taken by the Small Business Administration, has not sought reconsideration through the existing procedures, it is my view that contracting officers should be encouraged to seek reconsideration where there is a wide difference of opinion, through the established channels. I have been informed that instances have occurred where the Small Business Administration has reconsidered and withdrawn its certificate of competency. There are also cases where after a reconsideration by the

Small Business Administration, that agency has ruled that its certificate of competency would not be withdrawn.

In procurement of such magnitude as that of the Department of Defense, it must be expected that the two different activities will not agree in every case as to a contractor's prospective capabilities. Fortunately, such instances are not frequent.

(The following statement was subsequently submitted:)

The Small Business Administration has, in general, been very careful when granting certificates of competency. In 1955, that agency received 151 requests for certificates of competency but granted only 66; in 1956, there were 208 requests but only 106 grants; in 1957, there were 248 requests and 104 grants. In all, over the past three years, Small Business Administration has received 606 requests for certificates of competency but has granted only 276 such certificates

C. NEGOTIATED PROCUREMENT

Under this heading, the staff report criticizes a procedure developed within the services and now covered in ASPR 3–805 (a). This procedure covers negotiations when substantial competition exists. It provides that after a review of all quotations and technical proposals, negotiation should be conducted with that firm or those firms submitting the most favorable proposals. It allows award to be made without any face-to-face negotiation if the most favorable proposal initially submitted is completely acceptable technically and if the price can be clearly determined to be fair and reasonable.

This procedure was initially developed by the services to counteract a practice which had grown up in some procurement offices of calling in every company which submitted a proposal for face-to-face negotiations. It was felt that some companies were including padding in their prices with the expectation of eliminating it in whole or in part at the time of the face-to-face negotiations. Some companies would use the time between receipt of proposals and face-to-face negotiation to try to ferret out the probable prices of their competitors so that they might reduce their own prices only by the extent they felt was necessary to secure the award. To eliminate this practice, it was concluded desirable to notify all concerns that they might not have a second chance. Hence, if their first proposals were not their best proposals, they risked losing the award solely because they included padding. A great deal of experience with this practice has led us to the conclusion that we are more likely to get the contractor's best proposal at the outset by this means and, hence, are more likely to arrive at a final price which is fair and reasonable than we are through guaranteeing that there will be subsequent negotiation with all who submit proposals.

The staff report indicates overuse of this technique, and certain of their examples indicate the basis for this view. We agree that negotiations should be conducted after the receipt of proposals in all cases where it appears that the examination and negotiation of unexplored technical or pricing areas in the initial proposals will result in a better contract for the Government. The staff report suggests that there should be some administrative review of the use of this technique to assure that it is not overused. This will be done.

In commenting on the use of this technique, the staff report states that "it permits the contracting officer to determine secretly the low responsive proposals and, if he desires, negotiate secretly with that

bidder or those bidders or to make the award without any negotiation whatsoever." To rebut general allegations of secrecy, the Department has adopted a recent revision to ASPR contained in ASPR 3–106 which, in addition to the preexisting requirement for the publication of the award prices of unclassified negotiated procurements, now requires that an explanation shall be made on the request of any company which submitted a proposal at a lower price than the award price as to why that company did not receive the award. Provision is also made for posting award information in public places. Accordingly, we think that the general allegation of secrecy is not valid with respect to our negotiated procurement and that information concerning such negotiations is now made public to the maximum extent which is consistent with the protection of the trade secrets and the design and business confidences of the bidders.

The staff points out its view that in a number of these cases of competitive negotiation, particularly those where the authority for negotiation is based upon the impossibility of drafting specifications for formal advertising, formal advertising could, in fact, have been used. Each of the services has become aware during the past year of the extensive use which is being made of the authority to negotiate contracts based on the impossibility to draft specifications suitable for formal advertising. Detailed studies have led to the conclusion that this authority has been used too extensively and that the specifications which were in fact used for negotiation would, in a number of instances, have been suitable for formal advertising. In recognition of this fact, a change has been made in ASPR 3–210 requiring a higher level review of the use of this negotiating authority in contracts of substantial size before it can be used by the contracting officer. In addition, each service is continuing its own studies in this field to improve its administration of the use of the authority.

It should be pointed out, however, that there are many cases where the use of this negotiating authority is essential, even though it is possible to obtain competitive proposals. For example, the Department of Defense buys military adaptations of many of the products of industries which are engaged predominantly in civilian work and which are making products which are subject to rapid technological change and improvement and which were developed at their own expense. To fill military requirements, we want the best and most advanced products which can be obtained at reasonable cost. If we buy these products by formal advertising on the basis of detailed plans and specifications prepared by the Government, we could not possibly take advantage of all of the potentially available products and improvements which could be provided by these companies.

Similarly, if we advertised on the basis of performance specifications, we would be in danger of either over or under specifying unless we knew the precise state of the art in hundreds of laboratories throughout the country at the moment when bids were to be received. In the cases where we are unable to prepare adequate specifications, we need to buy the way industry buys. That is, we need to have suppliers describe to us the products which they can make to meet our needs and the price thereof. This permits us to select the product which gives us the best balance between price and technological advance, with negotiation as the tool to improve either the price or the product. This could not be done through formal advertising.

The staff report has pointed up the problem of the present inadequacy of our plans and specifications in connection with products which are of relatively stabilized design and where plans and specifications should be available for formal advertising. Each of the services has recognized this as a major problem and is placing emphasis on the development of suitable specifications covering such products. This is a never-ending task since hundreds of thousands of new items come into the supply system each year. Obviously this effort should be directed first to those items which are likely to be purchased in the future in the largest quantities.

A revision of ASPR effective in July 1957, contained in part 2 of section IX has established a departmentwide policy that, with respect to any product developed under one of our research and development contracts, we obtain all data necessary to enable the manufacture of the product by others. We believe that this will provide all of the information necessary for use in a specification suitable for formal advertising. It should be noted that this policy even requires that the contractor furnish essential information which may have been developed by him or others prior to the date of the Government contract. This new policy should assist in the solution of this problem in the future.

It is not our policy, however, to demand complete manufacturing data with respect to products which were commercially developed if such data includes proprietary information. As a result, there may always be items for which we do not have plans and specifications and consequently, which we cannot buy through formal advertising.

D. TYPES OF CONTRACTS

In general, the staff criticizes the use of letter contracts and price redeterminable contracts where the price is not first redetermined until much later than the time contemplated when entering into these contracts.

There is no question but that great effort should be spent in accomplishing the early pricing of our contracts. Only when a firm contract price, or a firm target in an incentive contract, is made relatively early in the period of contract performance does the contractor have the proper initiative for cost reduction. Such early pricing establishes the assumption of risks by both the contractor and the Government and thereby forces the contractor to exercise his management abilities to keep costs at a minimum, if he is to make a profit.

If, however, fixed and inflexible time limits for the completion of negotiations are placed on the Government negotiator, we are automatically saddling him with a severe negotiation disadvantage. The contractor has no such time limits imposed on him and as a result needs only to out-wait the Government negotiator to be able to impose his price on the Government. For this reason, we have felt it best not to impose inflexible time limits, recognizing that the failure to do so reduces the incentive for price reduction.

The staff report suggests that when there is delay in pricing, the contractor comes to the negotiating table with complete cost data, whereas the contracting officer has such data only for 40 percent of the contract (or such other percent as may be provided in the contract). This was formerly the case, but it is now generally the practice in

the services for the Government to continue to receive cost data up to the point of actual redetermination regardless of when the target for redetermination occurs. This practice will be reflected in the standard redetermination clauses which are to be included in the armed services procurement regulation in the near future. Obviously, where final pricing occurs very late in the contract, thereby reducing pricing risks, the contractor's allowable profit should also be reduced to reflect this reduction in risk. This is now the practice within the Department and is covered by ASPR 3–808.4.

E. CONTRACT ADMINISTRATION

The staff report recognizes that the term "contract administration" covers a number of the functions involved in contract performance. It is critical of—

(1) the limited extent of present policy guidance furnished in this field; and

(2) the development by individual purchasing activities of their own operating procedures without centralized guidelines.

As indicated by the staff, there is a wide variety of different subjects covered by this term "contract administration." In fact, it covers practically everything that happens in the relations between the contractor and the contracting agency after the initial contract is signed. Among other things, this includes the following:

Progressing and expediting the contract.
Technical approvals.
The pricing of changes in specifications.
The handling of contract amendments and repricing agreements.
The approval of subcontracts.
The administration and accounting for government property.
Inspection.
Acceptance and shipping.
Contract termination.

There has been no effort to cover the subject of contract administration, as such, in the armed services procurement regulation, although many of the above components are covered in some respect. For instance, at the present time, ASPR has extensive coverage of contract terminations and property administration and also covers subcontract approval, acceptance and shipping, and inspection.

By the nature of the problem, since it involves central contracting coupled with field contract administration, there will always be split responsibility among individuals and offices as is recognized in the staff report. We completely agree that the adverse effect of this split responsibility can be minimized through sound and well defined operating instructions, training and coordination.

Due to the nature of the problem, we feel that only general guidance should originate centrally and that each purchasing activity must assume responsibility for the soundness of its own operating instructions, training and coordination. There are, however, a number of aspects of the general problem of contract administration where improvement in the ASPR coverage is possible, and we are working on several of these at the present time. We hope to be able to provide for a single property administrator for each contractor who will report

in a uniform way to each of the departments having property with such contractor. For example, we are seeking to improve and simplify the ASPR section on contract termination procedures in an effort to speed up the termination process.

F. GOVERNMENT-TO-GOVERNMENT AGREEMENTS

The staff report states that under some government-to-government agreements our contracting officers are required to place contracts with the government of the country where the contract is to be performed, rather than with the private contractor who will actually do the work.

The major portion of our offshore procurement has been handled under the provisions of government-to-government bilateral offshore procurement agreements. These general agreements have been negotiated with 13 countries where the bulk of our offshore purchases are made. These agreements are designed to protect United States interests. They provide for exemption from taxes, protect United States contracting personnel from suits in local courts, and provide that the governments themselves will not make a profit from United States offshore procurement.

Under the protective umbrella of these government-to-government agreements, the contracting and purchasing officers are free to purchase from private industry or from government-owned firms, arsenals, shipyards, and so forth, as appropriate.

In addition, there are certain special-purpose agreements with our allies under which the government concerned provides facilities, supplies, and services on a government-to-government basis. In some cases, such as the mutual weapons development agreements and the facilities assistance agreements, these are on a cost-sharing basis.

NO-PROFIT PROVISIONS

The staff report refers to certain profits alleged to accrue to the foreign governments in violation of the no-profit agreements. The administration of the no-profit clause is the responsibility of the Assistant Secretary of Defense for International Security Affairs. However, this matter has been the subject of a very thorough joint review by the General Accounting Office, the Department of State, and the Department of Defense, and I will be glad to see that this committee gets a copy of that report if it so desires.

PART II. SUPPLY

This part of the staff report points up operational deficiencies at the service level and highlights problems which have prevented the interservice supply support program from becoming completely effective.

A. INTERSERVICE SUPPLY SUPPORT

The staff is critical of the effectiveness and implementation of the interservice supply support program. They point out three major areas as summarized on page ii, section C, part 2 of the report. The prime factors they state which have a detrimental effect on this program are as follows:

1. Inventory managers are reluctant to release assets which they hold as mobilization reserves or as excess operating stocks because, under the present

procedures, reimbursement dollars received from the buying service cannot be reinvested to replenish assets and are made available to the selling service only through apportionment procedures.

2. Inventory managers decline to buy releasable assets, which may have been in storage for a considerable period, from another service when they can buy new stock at the same price.

3. Because of (1) and (2), inventory managers are not making inquiries to the other services where material is available within their own service for redistribution. This means that expensive redistributions may frequently be made since funds will not readily be available to buy material located closer to the point of need but held by another service.

In our logistics study we came fundamentally to the same conclusions, and as a result are developing a plan designed to facilitate the following:

1. The transfer of materiel which is beyond the mobilization needs of the owning service to other services where a valid deficit exists without reimbursement.

2. The transfer of materiel held to meet mobilization and peacetime operating needs with authorization to the seller to reinvest proceeds when replacement is required.

As an interim measure, while we are developing improved supply and fiscal procedures to facilitate interservicing, I issued a memorandum to the services dated April 7, 1958, which provides for immediate action as follows:

(1) Separate identification of interservice sales and investment requirements.

(2) Separate allocation of funds to inventory control points to provide for reinvestment of interservice sales proceeds as required. The allocation of separate investment authority to the ICP's for interservice proceeds should minimize the problems cited by the staff during this interim period while we are developing a longer range solution.

The staff report questions the validity of interservice supply support statistics which were contained in an internal progress report of the Interservice Supply Support Committee published 4 months after the June 17 letter. In reading the staff report covering these apparent discrepancies, I shared the concern of the staff and I immediately requested the Chairman of the Interservice Supply Support Committee to review the contentions of the report. The Interservice Supply Support Committee has furnished me a report on this matter. As the report is long I have furnished it as an addendum to this statement. The Chairman of the Interservice Supply Support Committee, during the period covered, is here to answer any questions on this report.

There is one additional aspect of the overall problem of interservicing of materiel which I would like briefly to discuss and that is the matter of increased commonality between services. As I mentioned earlier, the Department of Defense has initiated an accelerated item reduction program, which we call Project Air, which will contribute appreciably to the increase in commonality of items between services and thereby provide a much broader base upon which interservicing of supplies can occur. This program provides for a reconciliation of catalog records, and an inventory adjustment phase which will provide for the elimination of nonstandard and obsolete items. These steps will be followed by a short-cut version of supply simplification and standardization. This process will be conducted essentially by

inventory management people and is that type of standardization-simplification which can be done without reference to engineering talent. Preferred-item lists will be developed on the basis of existing technical criteria and disseminated in the form of military standards establishing the limitation within which future procurement can be taken. This program is scheduled for completion in advance of our detailed engineering type standardization and will facilitate that effort to the extent that item reductions will have occurred. Current estimates are that 3.3 million items currently carried in the supply system may be reduced by as much as 25 percent.

B. THE SINGLE-MANAGER PROGRAM

The Secretary of Defense, on January 31, 1956, indicated that the further extension of the single-manager program would be determined after a careful study of savings as well as the advantages and disadvantages of this type of operation, recognizing that the primary mission is to effectively support the military effort of the country. A study involving the problems we are experiencing in the commodity assignments has recently been completed as part of the logistics systems study project. The findings are being evaluated.

It was recognized at the outset that this new management technique would require a period of time for its full impact. The time that has elapsed is not considered unreasonable, if we recognize the magnitude of the task to be performed. The employment of this system has had wide ramifications involving many functions. The transition had to be orderly and well planned if we were to accomplish our prime mission of effectively supporting the military. A new concept of funding and budget arrangements had to be developed and implemented. Extensive field studies to determine distribution areas and facilities to be used had to be made. Stocks had to be repositioned. Personnel had to be transferred to new locales in order that the skills required to do the job would accompany the functions. Many other new concepts, procedures, and actions had to be developed and implemented for which little, if any, precedent existed.

Although our study indicated that sufficient time has not elapsed to permit a conclusive evaluation of the single manager concept, it did reveal the potentials of the concept.

For example, since the single manager assignment for subsistence, Navy and Marine Corps requisitioners have been supported from single manager distribution points and positioned stocks. This has resulted in a 30 percent increase in the volume processed by the market center system with no required increase in the number or locations of market centers. Supply effectiveness has been outstanding. Carload shipments have increased since the single manager assignment for subsistence, permitting savings in transportation costs.

In clothing, it is planned to reduce the number of storage plants from 46 to 13 and to reduce inventories from $1.878 billion to about $1.398 billion during the next 5 years. By eliminating nonstandard items and by reducing the number of standard items, we anticipate that we will be able to eliminate about 13,000 items from our clothing and textile inventory.

The single managership for medical supply has reaped substantial benefits. Eight hundred and twenty-five thousand dollars have been

saved in annual personnel costs. Wholesale inventories have decreased $10.9 million in 1 year. We are also reducing our mobilization reserve pipelines in this category of material.

As we gain more experience with our single manager operation, we will be able to make further progress.

C. REQUIREMENTS—DISTRIBUTION PRACTICES

The staff report cites a number of instances in which it believes that requirements determination and distribution practices were not satisfactory. As these are operational questions, the services have been asked to reply to those parts of the report.

PART III. SURPLUS

A. DISPOSAL SCOPE

The report quite correctly recognized the tremendous dollar scope involved in our surplus program. Obsolescence, technological changes, and operational wear and tear will keep this program at a $6.0 billion rate for several years. I agree with the staff conclusion that if such annual rate of disposal is not achieved, the additional cost of maintaining the ever-increasing nonusable inventory will become almost prohibitive. In recognition of this problem we are suggesting that consideration be given to an amendment to the general provisions of the Appropriations Act to provide that costs of this program would be paid from regular operation and maintenance appropriations with these same appropriations being credited with the receipts generated by the sales. The effect of such an amendment would be to make available increased funding as the size of the disposal program grows. I think we have a substantial area of misconception in our disposal area in that when we talk of disposing of something we compare sales return to acquisition price. I think this is harmful to the military and misleading to this committee in its appropriation work, to some degree. We dispose of an automobile, for example, that might have cost a thousand dollars and maybe we get a hundred dollars for it. This means that we got 10 percent of the acquisition price. What we are talking about is disposing of an old, wornout automobile. We may well have obtained 50 or even a higher percent of what, in business, we would call the final depreciated value.

We are seeking to develop some language that would replace this terminology that I think is confusing to the public and which implies a great deal of waste and unnecessary loss of dollars that you gentlemen have seen fit to appropriate to us. When we get some suitable language that would be satisfactory, we would like to talk to you about it.

Mr. MAHON. Thank you very much. I think the point is well taken. In some cases you will have gotten the value out of the item.

Mr. MCGUIRE. In a very substantial number of cases. For example, in a worn out tank that must be scrapped we get a metal value that we claim as recovery, we percent that to its original acquisition cost. This implies to the public, in the sale of this material, that we have taken a substantial loss when, in fact, we have probably been well

repaid and have gotten all the use out of this item which you originally thought we should when you appropriated the money.

Mr. MAHON. You have used the item for training purposes, et cetera, and have gotten the value out of it. If you have bought an item and kept it in storage and not used it and sell it as surplus like certain spare parts the loss is a little sharper.

Mr. MCGUIRE. Yes, sir, the loss falls into various categories depending upon the condition and the use to which the property has been put.

B. LOCAL PURCHASE

As indicated in the report, local purchase is being used on an ever-increasing basis. The reason for the changing concept is, I believe, fundamentally sound. It does not appear economical to control certain low cost, easily procured items centrally. Proper management of the local purchase program should result in reduced generation of surplus simply because decentralized inventory levels need not be as high. However, in recognition of your staff's sincere apprehension, I have requested that the procedures under which this program is being operated be completely reviewed to assure that adequate controls are being employed.

C. MATERIEL UTILIZATION PROGRAM

The report considers that the utilization of available excess reportable property is inadequate and that the ratio of nonreportable property is too high.

The problem here is that only about 15 percent of the total items used by military departments are identified as being common to more than one department. Some of the lack of commonality is due to the different and specialized missions of each of our military departments. However, commonality of items among the services can be increased. The accelerated item reduction program which I discussed earlier should provide for a significant step forward in this regard. Under this program, multiple items used for the same purpose will be reduced to the minimum standard number of items required. As this program progresses, it will result in greater potential utilization of reportable property at the same time that total inventories are being decreased. Likewise, our proposed plan to transfer long supply stocks among the services without reimbursement to meet valid materiel requirements, should further increase utilization of all interserviceable property.

At the same time, it should be recognized that unnecessary costs are incurred in the reporting of specialized military equipment such as obsolete artillery, fire-control systems, ships parts, etc. These equipments have a high book value and their elimination from the reporting system depresses the ratio of reportable excess. Yet it makes sense to eliminate from such a reporting system the materiel which has no potential utilization.

D. SURPLUS DISPOSAL REGULATIONS

We are gratified to note that your staff feels that sound disposal policies are being issued at the Office of the Secretary of Defense level. We agree with your findings that discrepancies in the interpretation

of these policies by the departments do exist in a number of instances. A Department of Defense team headed by a businessman of long merchandising experience is currently reviewing our entire surplus disposal program. This is a joint service effort and we expect good results in the way of improved disposal techniques and dollar return.

E. FOREIGN EXCESS

We agree that various limitations imposed by existing Department of Commerce and Department of State regulations intensify foreign excess problems. Active steps are underway to alleviate these problems and to adopt the recommendations contained in your staff's report. As you staff points out, the Department of State has underway a revision in the limitation of foreign excess sales from $250,000 to $1 million. This is as a result of my request to the Department of State.

In addition, during the last 6 months, a series of discussions have been underway between the Department of Defense and the Department of Commerce to liberalize Commerce regulations regarding importation of foreign excess.

F. EXCESS AND SURPLUS SALES

We have studied very carefully the report's detailed analysis and conclusions regarding the different types of sales used in disposing of surplus materials. It is our feeling that one type of sale should not be emphasized over other types; rather, we feel each individual situation should decide the type of sale to be used. I wish to emphasize, however, that we are keeping an open mind on this entire matter and have assigned the entire question to a Department of Defense survey team for review. In addition, a test will be conducted to obtain "net returns" figures for the various types of sales to be conducted by the military departments during the fiscal year 1959.

Instructions on the use of retail sales, which your report favored, were issued in December 1957. These instructions authorize retail sales when this method appears advantageous.

G. SEPARATE PROPERTY DISPOSAL AGENCY

Several times throughout the committee report the recommendation is made that a separate property disposal organization be established within the Department of Defense. The recommendation further stresses that this organization be clothed with sufficient authority to set policies and to request compliance of all the services. The study team which I mentioned earlier is examining this recommendation. It will be carefully and seriously considered as part of that survey.

CONCLUSION

Mr. Chairman, gentlemen, I have attempted to address my comments to our principal activities during the past year and to the major points in the committee's report which affect all the military departments. I appreciate your constructive examination of our problems, and feel that the past interest of this committee has been most helpful. I look forward to your further assistance in the future.

Mr. SHEPPARD. Thank you, Mr. McGuire. We have other statements here but in accordance with the suggestion made by Mr. Mahon, at this time I will instruct those statements to be placed in the record for later reference.

You have made a presentation on the policy emanating from the Office of the Secretary of Defense. That is my interpretation of it.

Mr. MCGUIRE. Yes, sir.

Mr. SHEPPARD. The others would be more or less substantiating, perhaps there would be some deviation, but if we go through those statements we will spend a major portion of our time when there are many inquiries in the minds of the members of the committee. We will insert the statements in the record.

REQUIREMENT COMPUTATIONS IN ARMY ORDNANCE

Mr. MAHON. I should like to make a comment and ask a question of the Army. The staff reported its review of requirement computations in the Ordnance Corps disclosed lack of attention to the opportunities of effecting substantial savings to the Government. Downward changes in gross requirements sometimes result in items being in long supply with still more being procured but two cases were observed where this situation existed and no action had been taken to stop the procurement. Although they were already in long supply the Army was still scheduled to receive from procurement, 251 units of the 155-millimeter howitzer, costing $37,000 each, and 500 units of the M–65 telescope costing $1,400 each. This condition was disclosed in the April 1957 study but several months later no action had been taken to cut back or terminate the quantities on order. This represents an unnecessary expenditure of over $10 million apparently and in addition will add to the burden of the Army supply system.

It would seem that if any reliance at all can be placed on the requirement computation, procedures should be set up and vigorously followed to take immediate action to cut back or terminate contracts covering items already in long supply.

Why is this not being done? Let the man reply who is best acquainted with the subject matter involved in the question, Mr. Secretary.

Mr. HIGGINS. We have Colonel Watson, Office, Deputy Chief of Staff for Logistics.

Colonel WATSON. Mr. Chairman, in reviewing the computation of requirements there are three levels of review. One is at the inventory control point where the computations are made. The second is at the technical service level. The third is at the Department of the Army level.

The status of computed requirements and the procurement scheduled at the time of the staff visit to the inventory control point was reported correctly. The reduction in procurement was directed as the result of the review conducted at the Department of the Army level. We have recently reorganized our commodity manager setup at the national inventory control point so that now one man will be responsible for the computation of requirements, the direction of procurement, direction of distribution, direction of rebuild and the determination of excess. This will put all of that information into

the hands of one man right at one time. This is designed to forestall the lag of which you speak.

Mr. MAHON. Is it correct to assume we needlessly spent $10 million as a result of this procedure?

Colonel WATSON. No, sir; we did not needlessly spend $10 million as a result of this procedure. This particular instance of which you speak, the requirement reduction was the result of a reorganization within the Army which cut back on the requirement for the howitzer, this particular howitzer. However, when the status of this howitzer was reviewed by the inventory-control manager in relation to the total requirement for all howitzers of this caliber, including those which can be used as substitutes, the quantity on procurement was not excessive, and the study was not flagged for special review. When the study was reviewed at the Department of Army level there the determination was made that continuation of the total quantity on procurement was not necessary and the cutback was effected. The quantities actually on procurement are not excess to the total requirements for howitzers of this caliber.

Mr. MAHON. Thank you.

AIR FORCE SPARES AND SPARE PARTS REQUIREMENTS BASED ON FLYING HOURS

I should like to ask a question of the Air Force. With respect to flying hours the staff report shows that projected flying-hour programs are the most common measures used in the determination of the requirement for aircraft spares and spare parts. I am asking this question of the Air Force. I think the same question might be asked of the Navy but I do not propose to propound it now. However, the actual flying-hour programs were found to be consistently and materially less than anticipated. The result is the overprocurement of aircraft spares and spare parts. The Air Materiel Command noted this situation during a study of the F–100 aircraft and concluded that $60 million worth of spare parts were unnecessarily procured for the F–100 for the fiscal years 1954, 1955, and 1956. The staff believes the consistent issuance of unrealistic flying-hour programs is the largest single cause of the accumulation of aircraft spares in the long supply or surplus category.

The question: What consideration or studies have been given this problem by the Air Force? Many millions of dollars are involved. Have there been any solutions to the problem or improvements in this area? Let us have the man testify who knows the score.

COMMENTS ON INVESTIGATING STAFF REPORT

Mr. SHARP. I think General Dau can probably testify better to that than anyone we have. However, I would like to say that regarding this report in general I personally and the others involved I think feel it is a very helpful report, that it has uncovered areas that need study. In many cases we were already studying these areas and have come to conclusions. However, we feel this is a fine report and I wish to compliment your staff on the fine work done.

Mr. MAHON. We had available to us some of the best people in the Government as you know. Insofar as I am able to evaluate it this staff study is the best one we have had in the field.

Mr. SHARP. I think it is the best one I have seen.

Mr. MAHON. General Dau, we have not seen you in the last few days. I hope you bring us good news in what you are doing about these kinds of mistakes.

Mr. SCRIVNER. General Dau is an expert on some of these difficulties. I can testify to that from previous years appearances.

General DAU. I should like to confirm what Mr. Sharp said about the quality of your staff. As a matter of fact, the man you had on requirements is named Mr. Proger. It is a very useful term to me now to refer to "Proger items." We have to look at them. I compliment the staff that you selected.

EXCESS SPARES FOR F–100

The answer to this particular problem is two pronged. First, let me state that the F–100 study referred to came out of my shop. It was instituted in an effort to try to analyze what was occurring.

No. 1 is in the programing itself. The Air Staff rightfully programs certain aircraft and expects them to fly at a certain activity rate. I think it is historically well known that new aircraft often run into engineering difficulties. They do not actually arrive in the inventory and often are not able to fly the number of hours that we would like to have them fly. Therefore, if you bought accordingly, according to the official Air Force program, you would find you bought too soon to say the least.

The one facet of the approach to this problem is within our Air Staff in which they are now adopting the philosophy of programing according to capability as best they can determine it rather than the desirability. That of course involves some guess work on the part of the people charged with programing, but at least that is a help.

DELAY OF PROCUREMENT

The other facet of approaching this problem is one in which I am very much interested because I can do it myself. That is to delay procurement to the last possible moment. We have tackled that in I feel every conceivable way. Your committee was given a copy, for example, of our so-called Spare Study Group report for this last year. That describes in detail the various techniques we have used.

I might add in that connection the action taken 2 years ago in cutting out a legal distinction between initial spares and follow-on spares from 2 appropriations into 1 has been most helpful because it removes a rather arbitrary distinction and we can manage it all as one problem. In other words, it facilitates the delay as far as any fiscal restrictions are concerned.

Some of the techniques go as far as actually delaying procurement. In certain instances we depend on the production line to procure items of say an insurance-type nature. We negotiate with the contractor; he overproduces say one item. If we do not use it and say we decide at the last minute we do not need it he incorporates it into production.

RESPONSIVE PROCUREMENT

Another method is so-called responsive production, in which operating type items as distinguished from an insurance item, we allow

the contractor to buy certain buffer stocks, maybe small parts of the item itself. In that way he can cut his lead time in responding to a request from us.

Those techniques enable us to delay procurement. In this delaying period we find out more about the item itself as well as more about the end item, the aircraft itself.

ORIGINAL COST OF SPARES DISPOSED OF AS SURPLUS

Mr. MAHON. Can you give me in a round figure the original cost of spare parts which have been disposed of as surplus within a period of 1, 2, 3, 4 or 5 years? Do you have any kind of statistics available to you at the moment with respect to that?

I ask the question because I believe that hundreds of millions of dollars worth of spare parts is disposed of as surplus and is never used at all except it has been available if needed. Will you comment on that?

General DAU. I should prefer not to guess at a figure. We do have records.

Mr. MAHON. You will insert some figures here in the record.

General DAU. All right.

(The information referred to follows:)

The acquisition cost of aircraft spares which were disposed of as surplus during 2 consecutive years is as follows:

Fiscal year 1956	$664, 000, 000
Fiscal year 1957	722, 000, 000

The majority of this would consist of used items excessed as the result of changing programs and obsolescence. We have no data as to what part of this might be new materiel excessed from war reserves.

Mr. MAHON. Proceed.

General DAU. I should like to concur in your statement that millions of dollars worth of spares are disposed of without being used. I think the cause of that is quite obvious. We support an Air Force to carry out a war plan. We have a very distinct method of figuring what is required to carry out the war plan at any point in time. That means that an aircraft, say in peacetime, is flying 40 hours a month, suddenly the war plan is executed and for a period of time it is flying say 150 hours a month. We must have the supply support available to support that rate. Hence we stock our bases with sufficient stock to carry out the crucial phase of the war plan.

The war plan has so far not been executed. Obviously we have more stock there than is consumed in normal peacetime operation. I think it is rather obvious that the nature of the business is such that the Air Force has spare parts that may never be used.

Mr. MAHON. I believe in our report last year we pointed out that the Air Force had a $9 billion inventory in spare parts, and a considerable amount of additional money was asked for spare parts, and we tried to chop off some of that request and did, as I recall it. The feeling exists in this committee, at least among some of us, that all the services are overbuying spare parts even in the light of the observations which you have made with respect to war plans. Will you continue your comment, please.

REDUCTIONS IN SUPPORT ITEMS

General DAU. We have attempted, let me say, to explain our reduction in these support quantities by various percentage relationships. I think those are useful within limits. Whereas, in fiscal 1952 we requested 43 percent of the aircraft program, aircraft and its mission support, for this type of support in the current request I believe the figure is 22.2 percent.

That has gradually come down. That has come down for two reasons. One is the character of the planned war and our alertness to change just as soon as that changes. The other is to the changes in the supply or logistics system itself which in turn is made possible by certain advances. Those changes in the logistics system I think are quite important. The logistics cycle consists of certain communications of a request, if you will, certain processing of that, and then actual movement of the materiel; three parts.

Take the transportation part first. We have over this period of years I referred to planned transportation and oftentimes have planned premium transportation. A notable example is the airlift of expensive items such as aircraft engines overseas.

(The following additional information was subsequently submitted for the record.)

Studies have been made each year on certain engines to determine the correlation of reductions in requirements and the increased cost of high-speed transportation. Each of these studies has shown that the reduction in requirements has substantially overshadowed the increase in transportation costs. For example, a study of the J57–P–21/21A engine used in the F–100 fighter, which was programed and actually deployed overseas at about the same time that the airlift started, reveals that the reduction in spare engine requirements costs will, throughout the first line life of the aircraft, offset the added high speed transportation costs by almost $19 million (a 6-year span from fiscal year 1955–60 was used for this study).

The estimated benefits realized in the application of the airlift concept to all high-value items are as follows:

(*a*) At the presentation of the fiscal year 1956 budget estimates the airlift concept was first introduced. Benefits to be derived from the use of this high-speed transportation system and the collateral reductions in stockage points and maintenance time were, (1) increased capability to support peacetime and wartime operations and, (2) a reduction in spares requirements to support these operations. Spare engine requirements to support planned wartime operations on the basis of the normal transportation, maintenance, and stockage pipeline, totaled $960 million. The fiscal year 1956 peacetime spare engine requirement, based on the old pipeline, was $406.4 million. The combined requirement totaled $1,366.4 million. As a result of applying the airlift and expedited surface transportation concept with its attendant capability to permit the reduction in stockage points and quantities of stocks, plus the application of funds authorized in previous years which would no longer be needed under the new concept, the spare-engine fund requirements were greatly reduced. This reduction in requirements was further augmented by the capability to defer budgeting and buying certain wartime spare engine requirements, and a change in the aircraft program. All of this resulted in a reduction which totaled $1,074.2 million, leaving the net spare engine requirement cost as $292.2 million. These figures are contained in the record of the fiscal year 1956 budget estimate hearings (page 1443). This overall reduction constituted an accrued one-time reduction and was dependent upon acceptance of the concept as presented at the hearings.

(*b*) Had the Air Force attempted to provide spare engine support on the basis of the old pipeline for the aircraft procured in fiscal year 1955, fiscal year 1956, fiscal year 1957, and fiscal year 1958 an additional 2,193 engines would have had to be procured at a cost of $218 million. These additional engines would have generated costs for shipping and handling, storing, accounting, and modernization. These additional costs cannot be accurately predicted; therefore, for the purpose of

this study the amount of $218 million will be considered as the total reduction in the spare engine requirements area.

Effective with the fiscal year 1956 procurement program, the stock level for other high-value items was reduced from 5½ to 4½ months, and the repair cycle was reduced from 6 to 3 months. These reductions were made, predicated on the availability of high speed transportation, including airlift, for the movement of these high cost items. Had it not been possible to effect these reductions, Air Force fund requirements for fiscal year 1956 to fiscal year 1958 would have been substantially higher. Estimated increases in each year's fund requirement, had airlift and its attendant capability to permit the reduction of stockages and repair cycle time not been available, are as follows:

	Millions
Fiscal year 1956	$130.5
Fiscal year 1957	105.6
Fiscal year 1958	109.4
Total	345.5

The combined reduction of $218 million for spare engines and $345.5 million for other high-value spares and spare parts total $563.5 million.

(c) During the period of fiscal year 1955 to fiscal year 1958, the estimated cost of moving high-value items in the continental United States and overseas by air is $104.2 million.[1]

The surface transportation cost of moving the same material for the same distances and the same time period would have been approximately $15.1 million. The difference in costs is $89.1 million. This amount when subtracted from the reduction in high-value procurement requirements costs leaves an estimated net reduction or savings in overall costs to the Air Force of approximately $474.4 million since 1955 when the airlift concept was first inaugurated.

EXCESS SPARE PARTS FOR F–100

Mr. MAHON. You have not specifically come around, General, to commenting on this sentence:

The Air Materiel Command noted this situation during the study of the F–100 aircraft and concluded that $50 million worth of spare parts were unnecessarily procured for the F–100 for the fiscal years 1954, 1955, and 1956.

Is that correct?

General DAU. Yes, sir; but the key words are, for the years so-and-so.

Mr. MAHON. Yes.

General DAU. Obviously most of them, I hope, except those with engineering difficulties, were later required.

Mr. MAHON. In your opinion it represented an early buying but it did not represent a long-range loss; is that the point you make?

General DAU. It represented a long-range loss of a type we no longer have but not the $60 million, whatever the percentage was of engineering obsolescence and things of that nature.

Mr. MAHON. Is there any more that you can do to insure a better job in this field?

General DAU. Mr. Chairman, we never give up on this. As I say, in the two areas, one being consistent with how warfare itself changes and the other is energizing the system itself to require the least amount of materiel. I assure you every year we are able to pull something else out of the hat to continue that downgrade.

DISPOSAL OF EXCESS SPARE PARTS

Mr. MAHON. Why do you keep spares so long after you know there will be no further use for them?

General DAU. Sir, I think that is a very pertinent question. The disposal of any spare requires a specific computation. We are pro-

[1] This includes the cost of MATS operations at commercial rates.

vided by our planning and operational people with a terminal date after which an airplane phases out of the program. This then enables us to project through time how much materiel will be required to support this aircraft for the rest of its life. So that if we have long supply assets we can figure out how many are needed.

This is a question of continual monitorship to insure that those dates are realistic, that we are not projecting that we will keep the aircraft longer than we actually will; things of that nature.

Part of our supply management is a specific computation of what is excess under those ground rules and whatever we figure the rest of the supply management figures. The emphasis is to get it out of the system.

I have some figures here, Mr. Chairman, that might be illustrative.

(The information referred to follows:)

[In billions]

	October 1954	June 30, 1955	June 30, 1956	June 30, 1957
Value aircraft inventory	$9.8	$11.5	$14.3	$19.7
Value Zone of Interior depot inventory	8.3	8.3	9.1	8.9
Value overseas and Zone of Interior depot inventory			10.2	9.9
Value total base and depot inventory			12.4	12.4

Note.—The above depot and base inventory values include GSSF, ground support and direct aircraft support spares and components. These also include equipment held in warehouses.

These figures indicate a steady increase in the efficiency of supply operations. In 1954 we had a Zone of Interior depot inventory of $8.3 billion to support our aircraft inventory of $9.8 billion. As of June 1957 we were able to support an aircraft inventory amounting to $19.7 billion with a Zone of Interior depot inventory of only $8.9 billion. This is the result of reduced production input into our depots and diligent attention to the elimination of excesses.

Mr. McGuire. This may be of help to you. In our disposal accounting procedures we are breaking this down now so we will have figures which indicate what was sold; or unused material, salvaged materials, junk, that material which was worn out, and so on. This will be a back-feed indicator to us. It is something we need as an operating tool.

Mr. Mahon. I believe you need it very much.

PROBLEMS ARISING WHEN SPARES ORDERED BEFORE MAJOR ITEM IS IN PRODUCTION

Mr. Sharp. I want to make a couple of points. The initial provisioning of a new weapon takes place even before the weapon is in actual production and gets off the end of the production line and into use. I have considered this personally a very important and difficult field, and I have certain members of my staff constantly studying this by going to the provisioning conferences and seeing what can be done to improve them in their opinion and passing this on to the Air Materiel Command. We have been able to discover a few things that we think improve this.

In pointing out overall what the improvement is in another way than General Dau gave, 2½ or 2¾ years ago our ZI depot inventory was about $8.3 billion including spare parts. At that time our inventory value of our aircraft was about $9.8 billion. In the 2¾ years the cost

of the aircraft, which means also cost of spare parts, has gone up and the inventory value of the aircraft has risen to $19.7 billion. Our ZI depots inventory has only increased from the $8.3 billion to $8.9 billion so that instead of doubling the value of our depot inventories we have been able in this period of time to keep it down within approximately the same range when we have doubled the value of the aircraft inventory. I think this is a rather interesting indication that we are making progress. I certainly will not say we are doing the best job in the world. I guess we never will. But we are making progress. I personally am very happy about this progress.

D-DAY RELIANCE ON EXISTING SUPPLIES

Mr. SCRIVNER. As I listened to General Dau's statement it seems that the biggest problem we face or one of the reasons for the big inventory of spares about which this committee has talked—I guess when General Dau was just a colonel——

Mr. MAHON. He has always been a general.

Mr. SCRIVNER. No, he has not always been a general. We were faced with that problem then as now. Specifically what your statement, General, meant was that if an emergency came today we would have to go into it not only with the planes we have today but with the spares inventory that we have today. In other words, you are not going to have time to build that up.

General DAU. Right, sir.

DELAY IN PROCUREMENT OF SPARES

Mr. SCRIVNER. That accounts for some surplus. My other comment is a few years ago we were faced with the surprising picture that when we procured planes the cost of the spares was almost equivalent to the cost of the plane itself. That was demonstrated in a lot of procurement but now apparently that practice of holding off procurement to get them out of the production line later on after having flying experience is paying dividends.

INVESTIGATIVE REPORT HELPFUL

Mr. MCGUIRE. I should also like to say that I, too, agree that your staff report has been most helpful. Like many things that are good which we receive, I think it is going to give us a lot of work. I have set up in our office a group of people personally responsible for the followthrough on this so we do not wake up next September and find nothing has been done about these very valid points that have been brought forth.

CHANGE ORDERS IN NEGOTIATED PROCUREMENT

Mr. SHEPPARD. Reflected on page 10, we discussed negotiated procurement which always to me has presented a very intricate problem. People who are seeking contracts have their own technique of approach. I think that is rather logical. Sometimes it has been indicated that the cost factor involved, while low on negotiation.

later responded to different costs because of change orders issued, What has been done or is being done in evaluating the procedure in the negotiation to determine whether or not you are actually getting effective low bids by the interjection of change orders?

Mr. McGuire. I would like to have Mr. Bannerman, who has charge of our procurement office, speak specifically to that.

Mr. SHEPPARD. Very well.

Mr. BANNERMAN. Mr. Sheppard, as I am sure most of us are aware, at the time we negotiate the initial price of a contract it is obviously very difficult or impossible to predict what engineering changes may occur thereafter in the production of the item we are then buying. I think it is fair to say that at the time of the negotiation of the initial price we consider only those factors that are available to us at that time. There undoubtedly are cases where that price has gone up very substantially through subsequent changes.

Offhand I do not know of any way that can be controlled other than to assure ourselves that the product being offered to us is a satisfactory product at that time.

Mr. SHEPPARD. The point I had in view was this. Particularly when you are in a highly competitive status what I refer to becomes more prevalent. That is in consideration of 1, 2 or 3 negotiating manufacturers it is quite obvious 1 will make a low bid to get the business and then depend upon the change orders to bail him out later on. What position are you in to protect yourselves against that type of manipulation, if any?

Mr. BANNERMAN. I think a contractor who relies on that type of manipulation in a competitive situation is likely to be out of business before long because he can have no assurance there will be any change orders issued and particularly in competitive situations where we probably have a fairly well stabilized specification. Change orders are issued because of a Government need and are not issued at the convenience of a contractor. He has no right to a change order. The fact that he requests a change does not give any assurance that it will be issued.

Mr. SHEPPARD. We concede he has no right to do it but obviously that is not the controlling factor because it has been done and is being done. A contract was issued in the Air Force in a competitive situation less than 60 days ago where a man bought a contract. He is too smart to buy that contract without some recoverable aspect to it. There must be some basic principle involved here as to what approach he would have in his mind that would be a bailout for him on the financial repayment.

Mr. BANNERMAN. I do not think anybody would claim this is impossible. There can be situations where changes become necessary after award that have an effect on the price. Obviously in the pricing of the change order we make every effort to avoid bailing out prior losses. The price of the change order covers only the cost of the change and does not cover unrelated costs of the contractor. Hence, it should provide no basis for bailing out prior losses.

In most competitive situations it would be very difficult for any contractor to foresee a change because in most competitive situations the very fact that it is competitive is an indication that we are satisfied with the specification as it stands.

Mr. SHEPPARD. I think anybody familiar with procurement will concede that when you are dealing in the unknown procurement field you do have elasticity. That is always inevitable to some degree and the degree that prevails depends more or less on the view or supervision of the contracting officer plus his experience in that field; is that right?

Mr. BANNERMAN. Yes, sir. The contracting officer would have to assure himself that the change order being issued, and the price thereof, was in the interest of the Government.

Mr. SHARP. I might say, Mr. Chairman, in regard to the point you made of a contractor buying into it, we know this happens. I do not believe the change order factor is the one he expects to bail himself out on.

Mr. SHEPPARD. In this instance I am inclined to believe that.

Mr. SHARP. I think the one I have reference to was a bail-out situation. The conversation in the trade is, will there be a bail-out on the part of the low bidder in this instance.

Mr. SHEPPARD. It is well to have this response in the record so that the industry itself will understand it is not a bail-out policy or procedure.

Mr. SHARP. I think one of the things we have to guard against is a low bidder wanting to establish himself in production of an item so that in follow-on orders he may be able to bail himself out. We have to guard against this continuously.

INDUSTRIAL USE OF RESEARCH AND DEVELOPMENT FUNDS TO COVER LACK OF PRODUCTION REVENUE

Mr. SHEPPARD. General, what is the situation that you operate under in order to protect yourself, for example, where X company, corporation, or individual has a joint contract, one for research and development and one for production, wherein he uses his research and development cost factors to take care of his production when he has bid a very low bid in the production contract? What supervision, what auditing do you have to protect yourself in that field of function?

Mr. BANNERMAN. In most instances, Mr. Sheppard, the research and development work would be done on a cost reimbursement basis. Those cost-reimbursement contracts are, as you know, completely audited by Government auditors as an incident to the payment of bills. Segregations of cost between research work and production work that would follow would be insisted upon by the auditor at the time, so there is this audit protection against the overlap you have described.

DISCOVERING HIGHER COSTS UNDER CONTRACTOR THAN UNDER SUBCONTRACTOR

Mr. SHEPPARD. Would you say that that audit, generally speaking, is rather detailed, hypothetically?

The prime contractor has a rather large backlog and has subcontracted out minor components, comparatively speaking. The production cost to the subcontractor is $2.76, but for some reason best known to the fabricator that has the contract with the prime contractor it cuts that subcontractor and goes back and produces it in his own organization at a cost factor of $3.47.

How detailed is it to catch up with a problem of that character?

Mr. BANNERMAN. I think an audit would very frequently catch up with problems of that character. I think there would be scrutiny by the contracting officer as a result of the audit report as to why this subcontracted production work was called back into the prime contractor's plant under those circumstances.

Mr. SHEPPARD. For example, if you were getting a successful product under the subcontract, why would it not be arbitrary when a situation like that was found that the subcontractor would be continued? What would be the premise or philosophy of procurement in a case like that where you were getting it for the least money, but as long as we got it?

Mr. BANNERMAN. Of course, in the administration of our cost-reimbursement contracts we are requiring contractors to demonstrate that the costs incurred are reasonable and, hence, are properly allowable for reimbursement. I think if the case were as broad as the one you state, without any explanatory factors, there is no question but what the excessive cost would be considered unreasonable and disallowed.

Mr. SHEPPARD. In other words, under the analysis with which you function that would be picked up?

Mr. BANNERMAN. I would think it would normally be picked up under a cost-reimbursement contract, Mr. Chairman.

Mr. SHARP. Mr. Chairman, I might say in this connection that this is an area that I have been terribly interested in recently because of our slowdown in business.

Mr. SHEPPARD. I know of your activities in that field.

Mr. SHARP. I am personally interested in this matter, and I am receiving the concurrence of the higher echelons—certainly in the Air Force—and we are doing everything we can to see that this does not happen, and also at the administrative contracting officer's level we are checking on that situation at the plants and are checking over the subcontracting procedure. This is a very dangerous proposition, and we realize we must take affirmative action on it.

Mr. SHEPPARD. It would occur to me that it is rather an unconscionable procedure particularly in view of the fact that the prime contractor has a very heavy backlog of orders.

Mr. SHARP. It is, and it is also an expensive procedure, furthermore.

FAILURE TO EFFECT TIMELY TERMINATIONS

Mr. SHEPPARD. The staff reported that at the Navy Aviation Supply Office the requirements analysts were not using the management tools made available to them. Under the "Program usage replenishment system" tabulating cards for each item excess to computed requirements with on-order quantities remaining on contract are given to the requirements analysts. Obviously immediate steps should be taken to see whether termination action is advisable. The staff found many property classes with cards showing such excesses, but with no action taken to cut back on card production.

Some of the cards had been "ignored" for as long as 3 months. Such lack of attention to the obvious has two costly results—building up unnecessary termination charges, and bringing more excess material into the supply system.

Why has such an obvious way to save money for the Government been overlooked?

Mr. BANTZ. Mr. Sheppard, we are quite concerned about aviation supplies, and we are making quite a study of this as a result of recommendations made by a committee which has gone into this problem.

Admiral Arnold is here, and he is in the best position to answer that question directly.

Admiral ARNOLD. The staff has an excellent point there. There was an order in existence requiring that these cards be examined very promptly, but this procedure was not followed in this case, and we are very grateful to the Staff for bringing it to the attention of the Department.

It has also been called to the attention of the Aviation Supply Office, and it will be watched closer in the future.

Mr. SHEPPARD. In other words, you concur with the staff report, and you are doing what you can and you are doing everything you can to correct it?

Admiral ARNOLD. Yes, sir.

UNREALISTIC FLYING-HOUR PROGRAMS AS BASIS FOR SPARES REQUIREMENTS

Mr. SHEPPARD. The staff report also disclosed that a prime cause of overprocurement of aircraft spares and spare parts has been the use of unrealistic flying-hour programs in the determination of requirements for such items.

A similar study was attempted in the Navy, but the program documents necessary for the study were not available. However, discussions with Navy officials who used such documents in their daily activities disclosed that programed hours for combatant aircraft are consistently overstated in relation to actual hours flown.

The staff concluded that the use of such unrealistic flying-hour programs in requirements computations is the largest single cause of overprocurement of aeronautical spare parts.

It was brought to my attention that the Navy takes issue with the staff contention that the flying hours used by the Navy as a basis for computation of requirements are overstated.

I wish we could have your views on this, as there apparently is a difference of opinion by and between you and the staff report.

Mr. BANTZ. Mr. Sheppard, I think the first part of that question I can answer. The records were available but, probably, they were asked for at the wrong spot, but as far as the question of provision of spare parts as a result of the projection of flying hours, I think Admiral Dixon can answer that.

Admiral DIXON. Mr. Chairman, we certainly agree that this is one of the most important guidelines in developing our aircraft operations program.

For the fiscal year 1957, the year cited in the report, the Chief of Naval Operations estimated in May 1956, total flying hours at 4,550,000 hours. That was prior to the fiscal year, and we flew during the year 4,326,000 hours.

Now, there is a 5-percent variation, and no doubt it would have some impact, but I would hate to promise that we would be closer than 5 percent.

Mr. SHEPPARD. Let me ask a question pertaining to this general subject matter, because Mr. Mahon referred to it in his inquiry:

Addressing myself to the Department of Defense, are the ground rules of computation cost factorwise universal in all departments?

If they are, that is one thing, but if they are not, why are they not?

Mr. MCGUIRE. Some of these factors, Mr. Chairman, depend upon the mission of the service, or the particular thing that they have to perform. We have uncovered cases where some of these factors, as I call them, that they put in on these requirements do not seem to be consistent, and we are working to correct those differences.

I think it would not be correct in all cases to say that these factors should be uniform in every case. There are circumstances where they should be different. I think it is equally valid to say that where they are not uniform, they should certainly be challenged to find out why they are not.

UNIFORMITY OF GUIDE LINES FOR ESTIMATING FLYING HOURS

Mr. SHEPPARD. Let me ask you this, and this is directed to the respective representatives of the services here:

With reference to this slight deviation, as we all know, would it not be easier for all those concerned who are formulating budget requirements if to the degree possible there was a uniformity of procedure?

Mr. SHARP. I might answer for the Air Force on that, sir. Certainly, there may be a better of two procedures, let us say. I think if we establish too much uniformity in the procedures, we are apt to relax and to say that our procedures are good and that we are doing as well as we can. I think we should always strive for better procedures. I do think we ought to have adequate communications and interchange of information between the services so that if the Navy has come up with a better scheme of computing in certain areas than the Air Force has, we should certainly use it.

It may well be that we are a little bit lax in this area. I think Mr. McGuire's office is making an effort to try to look into both sides of this question and come up with some of these answers that look better than the others, and if they should and if they suggest to the Air Force a better way to do things, we certainly are receptive to it.

Mr. HIGGINS. I would like to say, Mr. Chairman, from the standpoint of the Army that, of course, this is the very heartbeat of our whole problem here in the logistics area with reference to these reqiirements in particular, and the problems they generate. I do not believe it has been said here today that there is a real precedent established right now for dealing with these problems, but the group of us sitting here at this table meet every Thursday morning for breakfast. Closer liaison than this between the services would be quite impossible. At these meetings we have an agenda to which each one of us is privileged to contribute any item which we find is a gray area, or is bothersome, and we kick it around at this breakfast meeting with the view of doing just what you have in mind here to the degree possible.

Also, Mr. McGuire here is working with us in chairing our committee, and has instituted a study of the whole logistics and supply system of the Defense Establishment through the three services. Reports are frequently brought forward on this study as to progress

or the lack of it. So, I think for the first time we are really holding hands on this problem, and we are doing something about it within the framework of the limitations that we have to deal with in our day-to-day job.

COOPERATION WITH COMPTROLLER

Mr. SHEPPARD. I think your conference meetings, as you have described them, are a very realistic approach to problems of this character, but there is one question in my mind, and this, obviously, would have much to do in the comptroller field from its inception.

Does a representative of the Comptroller's office sit in on these conferences?

Mr. MCGUIRE. No; Mr. Sheppard, he does not, as a matter of requirement, but we call on Mr. McNeil quite frequently.

I might say this to you: I would prefer to let Mr. McNeil answer this question himself, but from my point of view I think we are working closer with Mr. McNeil's office than at any time I have been able to uncover in the past.

I think it could best be expressed this way: The requirements for funds are generated by items that we come up with, and by the same token, the thing can be reversed. There is a great, not overlap, but a common interest in this field, and I think Mr. McNeil will tell you—and I would like to have you ask him this question—that we are working much closer in this field with his Office than has been possible to do in the past. By the same token, we have had a number of meetings with Mr. McNeil, with the Materiel Secretary's group, and others, because they have common problems. We have also established the point of view here that in their control areas in the respective services there is a common problem here that all should be aware of, and utilize to its fullest degree.

NEED FOR STANDARDIZATION OF COMMON-USE ITEMS

Mr. SHEPPARD. The staff observed thousands of blankets being disposed of as surplus at the same time that another service was buying blankets. It is understood this situation resulted from different color requirements. The same situation is said to prevail in regard to socks, gloves, and other items.

Why can the services not standardize on the color of these common items? I have been advised, for instance, that the Air Force Academy is to use special 9-foot scarlet blankets which cost about twice as much as regular service blankets.

Mr. MCGUIRE. That does not make much sense to me, Mr. Chairman, frankly. Of course, I have not heard about that, but I would be glad to look into it.

Mr. SHEPPARD. Based upon my exposure to this procurement system over the years, it has been indicative to me that in the specifications in the blanket field and fields in general of this category you have a specific requirement both in texture, weave, and so forth, but where it is a general use item of that character, it does occur to the committee that there could be a more definite standardization. While even I am susceptible to color effect, I do not like it to get into my bankroll too deeply.

Off the record.

(Discussion off the record.)

CREATION OF SURPLUS BY CHANGES IN UNIFORMS

The staff report indicates that changes in military uniforms generate much surplus. They found, for instance, over a half million dollars' worth of new unused Marine uniforms as surplus in Philadelphia because of change in number of cloth panels in the blouses; over 5 million pair of Navy socks worth over $2.5 million, reported excess because of a decision to wear black socks instead of white, and over 1 million yards of wool, flannel cloth worth over $4 million declared excess by the Navy because of "technological advances in the field of environmental clothing."

Gentlemen, that is wonderful language, but financially it seems to be slightly expensive.

Mr. McGUIRE. Mr. Chairman, I would like to speak to that in generalities. Some of these points are directed to the services, I believe. I think it is pretty obvious from the staff report—and I have made a note of it—that before we abandon a thing which we are using, we had better find out how much we want, and when it becomes effective, and while it may have a general emotional effect, we ought to consider the cost from the timing point of view.

There may be cases of extreme emergency where this would have to be done immediately, but I think we should look at it like businessmen and figure what our inventory is and figure how long this thing can be substituted. I think, however, with the centralization of much of this work in the single manager for clothing and textiles in Philadelphia that a good many of these problems are going to be brought to light.

One of the recent problems that we brought to light and which we made a decision upon, is in the matter of the kinds of leather that we use in shoes. We have standardized on that, and it is saving us a substantial amount of money in that area.

I can understand in the case of socks—an item that they mention—why it is difficult to dispose of those socks because, after all, the enlisted people have to buy their own clothing and they are going to buy the things they will use the most. However, it is a little hard for me to understand why we would change to a shirt that has a three-panel back until we got rid of the older ones.

In my business before I came here, which was the retail clothing business, I am sure I did not substitute a new item in the store until I ran out of the old one.

Mr. SHEPPARD. The change in the shirts might be more pleasant and more acceptable socially than psychologically.

Mr. McGUIRE. Off the record.

(Discussion off the record.)

SURPLUS BLANKETS

Mr. MAHON. Will you please supply for the record a clarification of this matter involving the blankets?

Mr. McGUIRE. Yes, sir.

(The matter referred to follows:)

STANDARDIZED BLANKETS

We have standardized 1 olive green blanket size 66 by 84 inches for the general issue wool blanket for the Army, Navy, Marine Corps, and Air Force.

The only other general issue blanket authorized is a gray blanket size 60 by 84 inches for crews aboard Navy vessels. Most of the bunks are too narrow to warrant using the full-width blanket.

AIR FORCE ACADEMY BLANKETS

The Air Force Academy plans to issue a different color blanket to each class—red, blue, gold, gray. These blankets are being procured through: (*a*) Federal Prison Industries, (*b*) Blindmade Products, at a cost of $16 each. Seven thousand are on procurement as organizational equipment for issuance, 2 for each cadet, as memorandum receipt property (loan). The blankets are considered to be a $35 value and to have a life expectancy of 10 years. These colored blankets are larger than the regular issue blue blankets now on loan to cadets as organizational equipment. Consequently, they are better suited for the larger beds which were purchased for the new site in order to better accommodate the taller cadets. The regular issue blue blankets, currently being used by the cadets on a loan basis, will be issued to the airmen at the new site.

Only the initial class of cadets purchased their blankets through the cadet store out of their clothing allowance. Of course, these cadets will retain these blankets as their own presonal property.

EXCESS FLANNEL CLOTH

Mr. MAHON. I think it would be good to have a better explanation of the matter raised by Mr. Sheppard with respect to 1 million yards of wool, flannel cloth worth about $4 million being declared excess by the Navy by reason of technological advances in the field of environmental clothing.

Is there anyone in the Navy who can speak specifically to that?

Admiral ARNOLD. Mr. Chairman, this material was purchased during the Korean police action as a part of the wool reserve buy.

Mr. MAHON. We do not use the word "police action" in this committee.

Admiral ARNOLD. Well, from the viewpoint of the cloth, sir, it was the same thing.

Mr. MAHON. We call it the Korean war.

Admiral ARNOLD. We purchased this from the manufacturer of such clothing for the use of our men on board ship. It was organizational clothing, of course, and not an item of universal acceptance. It was OD—olive drab—in color.

Following the Korean war, we developed a completely new uniform and a much better one for the use of our men on board ship, exposed to cold weather, and we felt that the changeover to this new material and to this new form of garment was worth what it cost us. If we made this cloth up into uniforms, we would have had to pay for the fabrication cost, and when we ended up, we would have had an inferior garment to what we thought we needed. That was our reason for declaring this material surplus.

Mr. MAHON. That sounds sensible. You just felt that you could utilize a better cloth in the interest of the Navy's efficiency?

Admiral ARNOLD. Particularly in combat; yes, sir.

Mr. MAHON. When you have good cloth like this, and declare it surplus, can you normally get something approaching the original value of it?

Admiral ARNOLD I would say an average is about 25 percent of what we have paid for it, bearing in mind that what we paid for it depended a lot upon the market at the time. If this were bought during the Korean war, I think we would have done well to get about

15 percent. I would say about 15 percent or 20 percent of what we pay for it. Before we get rid of it we ask each service if they can use it.

EXCESS NAVY SOCKS

Mr. MAHON. What about the 5 million pairs of Navy socks that were declared excess because you changed from one color to another? Is that substantially correct insofar as you know?

Admiral ARNOLD. We have always had those socks in stock, sir. We have carried them for a long time. That was another item that we bought as an item of the wool reserve during the Korean war. After the war ended, and the demand for this item got less and less—this is a clothing item, sir, which is worn by our men and it is not an organizational item, and this is bought by our men out of the clothing stores—frankly, they just got to the point where they did not want these heavy socks any more, and they would not buy them. They did not buy them from the store.

I should say that we got probably a little better return on those. We probably got about 25 percent or 30 percent on those, because they have a wide application.

Mr. MAHON. With respect to the cloth, would it be practical to have the manufacturer to dye socks?

Admiral ARNOLD. We tried that, and it did not prove feasible.

DISPOSAL OF SURPLUS STOCK

Mr. SHARP. With respect to this whole point that you are driving at, and fundamentally, it is why it is that we have to declare these things surplus and not run them out in our system, in this year's program we have made substantial progress in the elimination of things in the clothing industry; for instance, men's underdrawers, for example, and in each case where we have decided to drop something we have dropped it on the basis that it would be retained until it worked out of the system. I do not mean that we might not end up with some 5 dozen or some amount such as that that we might have to get rid of because it cost too much to fool with it. We do have this presentation on this matter by a man who has a great interest in this field. However, I think I am correct in stating that we are making substantial progress.

If any of the members of the committee would like to see this presentation, it takes about 35 minutes, and I think it would be something that you would appreciate very much if you have an interest in this field. I would be glad to arrange for it at any time you saw fit. However, I think good progress is being made in this field now.

Mr. MAHON. Thank you very much.

ESTABLISHING COST PRINCIPLES FOR NEGOTIATION OF CONTRACTS

Mr. MAHON. The Committee is pleased to find that our investigative staff was given excellent cooperation by the services during the course of the procurement study. It is also gratifying to note that the Departments have succeeded in strengthening some of the areas of weaknesses pointed out in previous staff reports. Of course, we realize that regardless of any studies which we make you are con-

stantly trying to improve your organization. It appears, however, that much work remains to be done. For instance, Mr. McGuire, you may recall that previous staff reports pointed out that the armed services procurement regulations did not provide guidance to the services on the subject of cost principles for use in the negotiation of contracts.

During previous committee hearings you acknowledged the need for such guidance and gave assurance that it would be provided promptly. The current inquiry disclosed that the uniform cost principles are still not available and that the failure to provide them has cost the taxpayers sizable sums of money. We know that you have commented on this in your statement, but we would like to have some definite assurance from you as to when this task will be completed.

Mr. McGuire. That is a very proper question, Mr. Chairman. Might I just take my remarks off the record for a moment?

Mr. Mahon. Suppose you put them on the record and then you can decide whether they should be taken off the record or not.

Mr. McGuire. When I tackled this problem—I believe this subject has been kicked around for 4 years or thereabouts—we finally got it out and settled a lot of differences which existed within the Department. This is an extremely controversial area, but we got it out for comment by industry. I have been exposed to a lot of buzz saws and bumblebees in my time, but this one certainly has not been outdone. I personally believe that this subject is one that must be settled and the sooner we get it settled, the better off for us and for industry.

The industry comments came in during the past winter and they have now been tabulated and evaluated. We sent inquiries to a widespread segment of industry because I believe they have an interest in these cost principles, and are entitled to know what we are doing, and we needed to know their points of view. We have now evaluated their comments and we have held 4 or 5 discussions—very detailed ones—with the staff people who have made this evaluation and with the Materiel Assistant Secretaries and Mr. McNeil's office.

In the past I believe that industry has been allowed to come in and talk with staff people, and I am not sure in my own mind that the staff people have not been trying to hold the line and not taking into due account what industry might suggest.

We are at a point now where we are almost in a position to go to Mr. McElroy—I say "almost," because there are two points we are trying to research in greater detail. One of them is the stock option phase of compensation for personal services and the other involves other phases of the compensation problem. I want to go to Mr. McElroy because, after all, he is the man in whose name this comes out, and he has got to be exposed in detail to this problem. If he agrees with us in our thinking, we will issue those changes, if any, as a result of the industry comments, and then have our meeting with industry. At that meeting, instead of having a lot of staff-level people, I think it incumbent upon myself and Mr. McNeil and the Materiel Secretaries to listen to these comments of industry, and then sit down and bottle this thing up.

Barring unforeseen incidents, I presume we can get this thing settled in early fall.

Mr. FLOOD. Could we have some evidences of action? Some of us are aware of everything you have said. You are reciting the procedural situation, but I am not clear at all about why or what are some of the problems of such major importance. We have heard about the meetings and discussions.

Mr. MCGUIRE. Fundamentally, it resolves down into several basic areas here, and if you gentlemen have any other points that I miss, I would like to get them on the record.

EXTENT OF ADVERTISING COST ALLOWED UNDER GOVERNMENT CONTRACTS

The first area is advertising, and how much advertising shall be allowed as the cost of Government contract. This is a controversial field. All of us before have seen these large full-page ads, and at the bottom it says "we would like to hire some people."

I for one do not think this is something that the Government ought to pay for.

Mr. MAHON. With respect to that question, for years Members of Congress, in my opinion, have received the kind of letters that I have received, and within the last 3 weeks I have received mail from people who have torn out some of these full-page or double-page advertisements of companies advertising guided missiles and things of that kind which have no relation to their retail business. The people who have sent the ads in complain that the taxpayers' money is being wasted on that sort of thing, and they do not like it.

I get in touch with the Department of Defense, but I do not make much progress. I get in touch with the Bureau of Internal Revenue, and do not make much progress with them. However, somebody needs to make some progress in this area because we are being taken for a ride in my judgment.

Mr. MCGUIRE. This type of advertising, conceivably, can be allowed as an expense under the internal revenue law. The other broad area is in charitable donations.

Mr. SHARP. I would like to ease your mind a little bit on this advertising of the type you are talking about. We do not allow that as a cost in the Air Force.

Mr. MAHON. But they would not do a lot of this type of advertising unless it were allowed directly or indirectly. You may not officially allow it, but it is undoubtedly allowed in some way or another.

Mr. SHARP. If we can find it, we do not allow it. If we can find where it resides in their accounting, we do not allow it. I can see reasons why they want to do it. In the first place, they have stock which they want to sell to the public, and in the second place, I think in the effort to obtain contracts, maybe they think they are showing what a marvelous company they are, and perhaps influence someone. I think, perhaps, they actually do deduct this from their profits as a means of doing something they want to do.

Mr. MAHON. I wish you or anyone else here would amplify the record along this line, because if this thing is legitimate we need more ammunition than we now have in response to my question.

Mr. HIGGINS. I would like to add that we do not allow that kind of advertising you describe, on any cost-type contract in the Army.

Mr. MCGUIRE. I think I had better clarify this point, Mr. Chairman. Under our present regulations contained in section XV of ASPR there are certain rules on cost-type contracts. This is fairly

limited, and we do not have what is known as a general set of principles that cover other types of Government contracts. The expansion of the cost principles to cover other types of contracts is what is taking some of the time to get this worked out and understood across the board. There are large areas of disagreement.

Mr. WIGGLESWORTH. Is there any doubt that this advertising is deductible from an income tax standpoint?

Mr. SHARP. I think it is deductible.

Mr. MCGUIRE. It is deductible. This is a legitimate expense of doing business. I do not think there is in this field very much that the Internal Revenue Department would disallow, because it is the right of the company to spend its money in advertising.

The second or the biggest broad area here is the matter of compensation, and this gets into the field of how big a bonus can a man collect.

Mr. BANTZ. I would like to confirm and affirm, Mr. Chairman, what the other services have said. As far as the Navy is concerned, we do not allow in a cost-type contract the type advertising you are talking about.

Mr. MAHON. When you receive the record I wish all of you would amplify your statements and make them as clear as you can on this subject, because this is a controversial question.

(The additional statements referred to follow:)

DEPARTMENT OF DEFENSE

The policy of the Department of Defense on the matter of the allowability advertising costs in cost-reimbursement contracts is as follows: The costs of "help wanted" advertising are allowable to the extent that they are reasonable in relation to the contractor's total recruitment costs. The cost of institutional and product advertising is not allowable, however, on the basis that it is not necessary for a company to use this form of advertising in order to sell to the Government or to perform Government contracts. An exception is made in the case of institutional and product advertising in support of technical and scientific periodicals. These costs are allowable as a matter of policy to foster the existence of such periodicals which disseminate information otherwise not likely to be made available to the public and to Government personnel. These same policies are followed by each of the military departments in negotiating the prices of contracts other than those of the cost-reimbursement type. No attempt is made to restrict the use of advertising of any of these types when the cost thereof is not charged against the Government.

DEPARTMENT OF THE NAVY

The Navy policy as to acceptability in cost-reimbursement type contracts of contractors "advertising cost is the policy set forth in Armed Services Procurement Regulation, paragraphs 15–204 (a) and (r) and 15–205 (a). Summarized briefly, such policy is as follows:

"Institutional" advertising (not offering specific products for sale) in trade and technical journals and "help wanted" advertising are accepted, but product advertising is not acceptable.

In fixed price contracts product advertising, where identifiable is not accepted, unless included within a competitive price, as in the purchase of a commercial item from the firm quoting the lowest price.

The Air Force is aware that the advertising expense charged against defense contracts is an expense which is wasteful to the extent the advertising is unreasonable or unnecessary. This is an item of contractor's expense we watch closely. We apply strictly the "Advertising Expense" rule of the Contract Cost Principles set forth in the Armed Services Procurement Regulation, Part 2, Section XV, to both fixed-price and cost-type contracts. We recognize the cost of "help wanted" advertisements and advertisements in trade and technical publications available for dissemination of technical information within the contractor industry, provided such advertising does not offer specific products for sale.

This policy is closely followed by contracting officers in administering contracts by requiring and having available to them continuous or selective audit reports of these and similar expenses performed by the Air Force Auditor General.

Mr. FLOOD. That will include junk mail, slick magazines, and the whole category that we are being inundated with in the last year.

ALLOWABILITY OF COSTS OF ADVERTISING PRESENTING EMPLOYMENT REQUIREMENTS

Mr. MCGUIRE. I should like to talk about one other point relative to advertising that I did not mention to you, but which is of interest to you.

I am sure all of you have read the New York Times, and maybe have been impressed with the advice of an employment and that somebody runs about "Come to Florida; it is a wonderful place to live."

The problem is how to control that, and keep the cost of it in a reasonable area for the purpose it serves of hiring new employees. The problem is not confined to the ad you are looking at because this can be advantageous to this company if that is the only ad it runs. The cost of the ad may be very low in relation to its employment requirements and as compared to another company which would run thousands of small ads all over the country. However, I think it makes a bad impression in some cases. In addition we must consider what other things they do as inducement to these people to work for them. We are trying to get this nailed down so that the overall cost of hiring a man to work for us is a reasonable charge to the Government. I think that would be the yardstick. You could say this ad is excessive, but if that is the only expense the contractor incurs in hiring an employee, as contrasted with others who are giving free trips and interviews at the plant, his cost may be much lower than the other fellow's, but if it is reasonable overall in his employment costs, I think that is a fair yardstick.

Mr. FLOOD. In the old days they used to have a free lunch down at the end of the bar, but in Pennsylvania that is against the law, and you cannot do that any more.

Mr. MCGUIRE. I thought you had to pay for the drink.

ALLOWABILITY OF BONUS PAYMENTS UNDER GOVERNMENT CONTRACTS

The other think which I would mention is this salary problem.

For example, the company I came out of pays a basic salary—a very low salary—and the philosophy was "you go out and earn it," and our bonuses ran in many cases 3 or 4 times what our salary was. The other philosophy which you have is that of a higher salary and a smaller bonus. I think we would have to reach some agreement that will give some recognition to the overall reasonableness of the total compensation. At the moment you do not allow bonuses, do you, Mr. Sharp?

Mr. SHARP. We do not at the present time, although there is a difference of opinion between the services as to which is the right approach. There is a very good argument on the other side, and that is, "Why is it you will not allow this fellow to pay a man $25,000 a year, and a $25,000 bonus for doing a good job, when you allow this other company of the same size to pay this man $50,000 a year?"

CLASSIFIED MATERIAL APPEARING IN ADVERTISEMENTS

Mr. SHEPPARD. There is another point which has been rather interesting to the Committee, and that has been that much of the testimony presented to our committee has been marked "top secret." Yet, almost immediately after our hearings or during our hearings, we see advertising carrying pictures of the instruments which are top secret to the committee.

It would occur to me that the elasticity in that field could be circumscribed by saying "you have legitimate advertising, but if we are going to keep this item in the top-secret category in presentations to the House of Representatives and to the governmental agencies, you are not going to use it in this field of advertising."

Mr. MCGUIRE. That is right. I am not familiar with the actual details of how this runs, but I had occasion to have an ad of a major company submitted to me the other day. It was somewhat along this line, and it had been cleared by Mr. Snyder's office, but not from the point of view of the detailed context of the editorial part of it which was aimed at some economics and things of that nature, but as to whether there was a security violation on this job.

STANDARD ADVERTISING AND COMPENSATION POLICIES

Mr. FLOOD. Mr. Secretary, I notice when you discuss advertising, you are prepared to tell us about 4 or 5 big things that I asked you about that are causing you trouble in this area. Advertising is one. Now, you turn to the Air Force and you turn to the Navy and Army and there seems to be some uncertainty as to what the rule is.

Are you suggesting that either of the services or all of them, may have different rules about advertising allowances, and different rules about bonuses, and different rules about compensation? Can you not give verse to one rule and must they all follow it? Why should there be any doubt in your mind or my mind that there is one rule in defense procurement for all branches on advertising, bonuses, compensation, charitable organizations and right down the line?

Mr. MAHON. At this point we shall recess for lunch.

Mr. Flood, that will be your first question, and the first response after lunch.

We will reconvene at 2 o'clock.

AFTERNOON SESSION

Mr. MAHON. The Committee will please come to order.

STANDARD RULES ON COSTS UNDER ALL CONTRACTS

Mr. Secretary, will you please comment on the question asked by Mr. Flood at the conclusion of the hearing this morning?

Mr. MCGUIRE. The question was, why can we not have one rule on costs?

I would like to say in answer to that question the following: At the moment, in section XV of ASPR, there is a set of cost principles applicable to reimbursable cost-type contracts. These cost principles were made up nearly 10 years ago and need some overhauling. There are differences, conceivably, in the interpretation of these principles. A general set of cost principles is what the General Accounting Office

has been after for some time and which would encompass all kinds of contracts except formally advertised contracts. In preparing cost principles applicable to other types of contracts you get into some problems.

This is what is causing some of the trouble in getting a settlement, to get a general understanding of the impact of this on other types of contracts.

Mr. FLOOD. May I interrupt?

I am not clear—and that is why you are here, to assume the burden of trying to clear me up—when you said "cost" that is the generic problem, but then we have the question of costs raised by Mr. Mahon.

You have outlined the procedure and the status, but what are the 4 or 5 big problems? You mentioned advertising. We kicked that around and now why should there be any problem with or without solution of the entire cost difficulty? You have a bear by the tail there, of course, but why, tomorrow morning at 9 o'clock do you not say to all of these men here, "That is out. That is the end of it."

Mr. MCGUIRE. If I were to say that you would be a very busy man with industry.

Mr. FLOOD. That leaves me cold. That is your problem. I want to know why is there a problem? These men individually have said, "Mea culpa, mea culpa. We did not do that."

All I want you to do is to confirm their prostations and say, "This is the rule." When you get to some other things, you may have a little different problem but why is there not a rule?

Mr. MCGUIRE. As I tried to explain to you, there has been a rule on the reimbursable type of contract. The thing we are doing is exactly what you are suggesting and that is to get a standardization of this thing for all types of contracts. We think that there should be a standardization.

Mr. FLOOD. Good.

Mr. MCGUIRE. However, I want to point out to you that I think it only proper and fair that we should hear the other side of the story. This is not a simple matter in all of its elements. It gets down to some involved and detailed areas and there has been much disagreement within the Government. While as of today we have come a long way—almost to its conclusion in my belief—industry of necessity is not going to agree with all of these decisions. This is another of the difficult parts of this kind of operation in Government. There are serious differences of opinion existing at the moment and we are trying to clean them up and decide them properly. I presume this is one of the reasons that this subject has been kicking around for the last 3 or 4 years.

Mr. FLOOD. Mr. Mahon read us a statement where it has been kicking around for 50 years.

I remember that Louis XIV had this trouble with gunpowder. Remember?

Mr. MCGUIRE. Mr. Flood, I am not being facetious, but I am certainly having trouble with it.

Mr. FLOOD. Louis XIV had many and different kinds of trouble that I hope you will avoid.

Mr. MCGUIRE. I just want to say this to you in summation, if I may: It is the opinion of the Material Assistant Secretaries, the Comptroller, and all of us in Defense, that this subject must be straightened out. It has been hanging fire for a long time and we

want to do it properly. It is an area that, whatever we decide, there is going to be a lot of controversy about.

Mr. FLOOD. Will it be done before Christmas of this year?

Mr. MCGUIRE. I think that I can pretty well assure you that.

Mr. FLOOD. You can?

Mr. MCGUIRE. Yes, sir.

Mr. MAHON. Along that same line, the staff felt that there was a weakness in ASPR because it did not include guidance for contracting officers engaged in negotiation of contracts with contractors whose business is solely, or almost solely, with the Government. The comments you have already made on this matter do not appear to be completely responsive to this aspect of the problem.

ESTABLISHING A CEILING ON PROFITS

The Committee would like to give you an opportunity to state whether you believe the Department of Defense should establish a ceiling for profits in such circumstances and, if you do, what the ceiling should be.

Mr. MCGUIRE. We have some ceilings on the general profit limitations, sir, in the cost-reimbursement area. I think this is a very difficult question to answer in a broad generality, because, as I am sure you will recognize, there are many sets of different problems that enter into the final contract. Mr. Bannerman, who is head of our procurement area, could amplify this statement for you, if you do not mind.

Mr. BANNERMAN. When we get into contracts with some major segment of industry, such as the aircraft industry specifically mentioned in the staff report, we do not feel that we can establish a single or a narrow range percentagewise of profit rate for the reason that there are some rather wide differences in individual contracts as to those elements that go to make up profit. For instance, some of these contractors are willing to take contracts that involve rather substantial risks and we have all agreed that risk is one of the factors that should govern the rate of profit we allow. There is congressional sanction for this conclusion. Some contractors have a very great deal of Government assistance in the performance of their contracts and others have less. Some contractors do a very fine job, have a fine record for economy and efficiency, and others have a rather poor record, and we feel this should be considered in the question of how much profit should be allowed.

These factors that go to affecting the rate of profit that we should allow are fully set out in the armed services procurement regulations right now as factors and as they affect profit. They are also set out, as this committee knows, in the Renegotiation Act passed by Congress and our regulations tend to follow the philosophy of the Renegotation Act rather closely. We feel that this discussion of the factors affecting the rate of profit which should be negotiated is a better kind of guidance than a specific percentage rate or range because, contract by contract, there will be wide variations in risks, economy of performance or Government assistance, to the degree that a specific profit rate or range for any industry or any group of contractors would, in some instances, be improperly high or low as compared with other industries or groups.

Mr. MAHON. If you did set up a percentage range, from what low point to what high point would it probably extend?

Mr. BANNERMAN. Mr. Chairman, I think that probably we would be strongly influenced in that by the statutory ranges that the Congress has established in the Armed Services Procurement Act for use in cost-reimbursement types of contract where a top of 10 percent in ordinary contracting is allowed and 15 percent in research and development has been established and in the profit limitation provision of the Vinson-Trammell Act which established a limit of 10 percent for ships and 12 percent for aircraft.

I think that these would certainly influence the limit within which we would work although it should be realized that the average profits now are substantially below these limits.

PROFITS ALLOWABLE IN RESEARCH AND DEVELOPMENT CONTRACTS

Mr. MCGUIRE. Could I add to that?

There is a great deal of contention in industry today, particularly in the research and development field, that we are stifling the incentive of industry to take on some of these research and development problems, and tie up their engineers because there is not a profit margin which, in their opinion, is substantial enough. We have this limitation of 15 percent in research and development. It should be made clear, however, that the average contracting officer cannot go to 15 percent; 10 percent is the ceiling which he can go to, but he can appeal to higher authority. I think that it is only fair to say that in talking in terms of the average contracting officer, he is always looking over his shoulder at the completion of this thing, as to what is fair after the fact. I think his tendency is to keep this profit allowance on a very conservative basis.

We made a study the other day and we found that the percentages that are used tend to peak up around 6 or 7 percent in this general area.

Mr. BANNERMAN. I think that is correct.

Mr. MCGUIRE. That would indicate that maybe we were not in special cases giving adequate consideration to the desirability of allowing higher profits where there is an extreme degree of risk. For example, if I take a research and development contract and, in effect, if I do not produce what I say that I will produce, there is no penalty involved here. In other words, if by a contract I am trying to use my best efforts to solve a problem, that is one thing; but if I take a contract that says, "I shall solve and I shall produce something," to me that is an entirely different matter when I come to the profit factor which should be negotiated. I have a high element of risk if I run into difficulty and cannot perform.

Mr. MAHON. If you take a research and development contract and you do not guarantee results, why should you get a higher profit range?

Mr. MCGUIRE. Using my illustration, I would say that I agreed that you should get less. There are so many factors that enter into this thing and then there is the natural reluctance on our part not to be too liberal in this field. Some people criticize us, and quite vehemently, that we are just too niggardly in this respect. I do not think we are.

RENEGOTIATION BOARD

Mr. MAHON. Do you think the Renegotiation Board is doing a fairly accurate job?

Mr. MCGUIRE. Yes; I do. We have recently worked with them and there are several areas in which we felt that their regulations should be clearer. As you know, their bill is up for extension and in working with the Renegotiation Board, we made several suggestions to them. I am very happy to report to you that, after talking with Chairman Coggeshall of the Board, he agreed to put these suggestions in his regulations. These suggestions largely address themselves to two areas. The first was that, in the incentive type contract, industry claimed they were not getting enough recognition for efficiencies they had achieved and where the contract provided that a premium should be paid for extraordinarily good work. We think that they have clarified that in the revision of their regulations.

On the other side of it was the point that industry made that, in the decisions of the Renegotiation Board, they did not get enough information to know how the Board had come to its conclusions. They are spelling that out for them in more detail. Whether this will be satisfactory to industry, I do not know, but I think there is a place for renegotiation and I think it is one of those things that is quite proper and being well handled.

Mr. MAHON. Off the record.

(Discussion off the record.)

ARMED SERVICES BOARD OF CONTRACT APPEALS

Mr. MAHON. Has OSD reviewed the activities and procedures of the Armed Services Board of Contract Appeals to see whether steps can be taken to reduce the processing time and the backlog?

Mr. MCGUIRE. OSD has not made such a review. The activities and procedures of the three panels of the Board are under the jurisdiction of the Secretaries of the military departments. The standard disputes clause in Government contracts provides for appeals to the Secretary of the contracting department. Members of the Board to hear appeals under the disputes clause are designated by and are personal representatives of their Secretary. The charter and rules of the panels of the Armed Services Board of Contract Appeals are uniform and are set forth in ASPR appendix A. The Office of the Secretary of Defense will work with the military departments to seek ways of overcoming the backlog of undecided cases.

QUALIFICATIONS OF PROPOSED SUPPLIERS

Mr. MAHON. The Staff commented on a number of Army and Air Force contractors who were not meeting delivery schedules because of production difficulties. We have had that for some time. It was reported that some of this difficulty resulted from the failure of higher headquarters to support properly the views of their evaluation personnel who found the contractor's facilities inadequate and recommended against awarding of the contracts in the first place.

What would be your comments on that? For that matter, what would be the comments of the Air Force and Army?

Mr. MCGUIRE. I would like the services to answer that.

ARMY EXPERIENCE IN PREDETERMINING QUALIFICATIONS OF SUPPLIERS

Mr. HIGGINS. I would like to call on General Engler to answer that.

Mr. MAHON. General?

General ENGLER. Sir, the staff in their report made reference to two particular Army contracts in which they believed that the evaluation by the contracting officer was not being properly supported. This was in the face of a Small Business Administration Certificate of competency which resulted in the awarding of the contract. One case pertained to procurement by the Engineers of a 30-kilowatt generator set and the contract amounted to some $1.5 million. The pre-award survey was performed by the Engineers and in the process of this pre-award survey, the Engineers did determine that the contractor had sufficient production know-how and sufficient financial backing to receive the award of the contract. It was pointed out in the pre-award survey that from a financial standpoint, the contractor did have an unused loan of some $85,000, of which $70,000 had been guaranteed by the Small Business Administration and the bank indicated that they would extend this loan by some $20,000.

The contractor's bank balance appeared to be favorable for this particular contract and the contractor had previously satisfactorily performed on a contract to the amount of some $1.8 million. The way in which the Small Business Administration is involved in this particular procurement is that, in the initial procurement, although the Technical Service had recommended against the placement of the contract, the Small Business Administration had issued a certificate of competency and had assisted in the financial support of the concern and the concern had satisfactorily performed.

In the face of this history and in the face of the pre-award survey made prior to placing the contract in question, the Engineers felt that they had no reason to deny the contract to this particular contractor.

The staff also makes mention of the fact that by July of 1957, at which time they were partially into this contract, that the contractor only delivered a small number of the 576 units required. That statistic appears to be in error as, at that time he had actually delivered 221 of the 576 units required.

Under the circumstances, it would appear that the pre-award clearance, as well as the past history of the company, justified the placement of the contract with this particular concern.

Mr. MAHON. Did it turn out to be a mistake?

General ENGLER. We do not consider it so. They will finish their contract satisfactorily and it would appear that actually the Government had saved money and had benefited by continuing the contract and receiving the completion of production. Had they made a decision at this point in time, when they were slightly behind in their contract delivery, to terminate and go to another concern, the Technical Service feels that without question they would have been involved in a contract of a greater price and their deliveries would have been delayed still further.

Mr. MAHON. You can amplify that further for the record, if you wish.

General ENGLER. Yes, sir. No further amplification is desired.

(The details on the two contracts in question have been furnished the committee.)

AIR FORCE EXPERIENCE IN TERMINATING CONTRACT

Mr. MAHON. What would the Air Force say with regard to this matter?

Mr. SHARP. Mr. Chairman, some of the criticism is directed toward the fact that the Air Force and the Army did not have the same rules as to who had the right to terminate contracts. We checked into this and agree with the report that our rules called for a higher level to terminate those than the Army. We have since delegated our authority to a lower level.

There was another criticism, as I remember, which indicated that we should use our procurement officers as termination officers. The Air Force does not feel that they can agree with that suggestion. We feel that specialists in this field are necessary and that it is a very complex kind of a thing and the Air Force has worked on the theory that specializing this operation as much as possible one man would then not have to learn too much. We feel that we are justified in having special termination officers who are experts in this area. We do feel and have acted upon the suggestion that is is a good idea to allow the termination to take place at a lower level.

NEGOTIATED PROCUREMENT

Mr. MAHON. I should like to make a comment about negotiated procurement to this effect:

The comments regarding negotiated procurements are generally quite favorable and should do much to dispel the more or less generally accepted belief that all negotiated procurements are objectionable.

The staff noted certain areas where improvement should be made in this field. One of these concerns the acceptance of proposals without actual negotiation of price, even though the solicitation for proposals indicates such negotiation may take place after the proposals have been opened.

Mr. SHARP. Are you addressing that to me?

Mr. MAHON. To anyone.

Mr. BANNERMAN. In the cases that are mentioned the invitation or the request for proposals makes it clear that there may or may not be actual negotiations.

Mr. McGuire speaks to this subject in the statement that he has already read.

Mr. MAHON. Yes; that is right.

Mr. BANNERMAN. He has stated that the reason for reserving the right not to conduct actual face-to-face negotiations is so that each bidder on one of these jobs will not have assurance that he will then be called in and offered the opportunity to take out of his bid any amounts that he may have put in for that purpose. In the ordinary negotiation we cannot be sure that all of such padding is eliminated. The best way to control it is to provide a system which makes it dangerous to the bidder to put in any padding in the first place. In other words, we want his best quotation first. We have found that this system has worked pretty well over the years. I do not believe that anybody has been misled in this procedure in thinking that he would have face-to-face negotiation and then had it cut off.

ADEQUACY FOR ADVERTISING PURPOSES OF SPECIFICATIONS USED IN CONTRACTING

Mr. MAHON. In connection with the same kind of negotiated contracts, it was observed the justification for negotiation was that specifications were not sufficiently firm as to permit procurement through formal advertising. The staff found that in many instances the specifications used in the solicitation for proposals were written into the contracts without change. Our investigators feel that if specifications are good enough for contracting purposes, they are good enough to use in formal advertising.

Is there any validity to that?

Mr. MCGUIRE. Yes, there is. I should like to say that this particular area has afforded us a good deal of concern. The services are working on this and it is not a new problem. It has been with us for some time and it was with us during the war, if I remember. We are taking certain steps to clarify this matter and one of them is the ASPR regulation that we issued that covers the proprietary rights and which tries to clarify this situation.

The other one is to get our specifications and plans up to date so that we have them available and straightened out.

You may want to add something to this, Jim, because you are taking other steps along this line to clarify this point.

Mr. BANNERMAN. We have also made a requirement in the armed services procurement regulation that whenever we are negotiating under the authority of the provision which allows negotiation when there are no specifications adequate for formal advertising, there must be a higher level review of that decision. We have found, and I think your committee staff found, several cases where it was pretty clear that the specifications used in a negotiated situation could have been used for formal advertising. We are attempting to tighten up on that

Mr. FLOOD. Will you yield again, Mr. Chairman?

Mr. MAHON. Yes.

Mr. FLOOD. That being the case, you are about to give birth to something. Why do you not? I would like to be present at that accouchement. Why do you not say so?

Mr. BANNERMAN. Mr. Flood, we did say so. It is in the ASPR now.

Mr. FLOOD. How long ago?

Mr. BANNERMAN. About 5 months.

Mr. FLOOD. Then the baby is christened; good.

Mr. MCGUIRE. I think we will still find some areas of disagreement in this field. This is one that is going to take a lot of work to get it permeated all the way down through.

Mr. FLOOD. I shall not quarrel with disagreements because you cannot write rules for a show of this size. I thought that Mr. Mahon raised the question of negotiation.

Where is the top and where is the bottom? There is a close analogy between public utilities regulations and tariff schedules. You remember that when that was born it was quite a problem and now after 50 years it is no longer a problem except the value of it. Why, in this area which is no more complicated? There is no more complicated segment of our economy than public utilities and there are no richer or fatter cats than public utilities. That is good and there is nothing the

matter with that and they are very big. Yet, within the rule of reason, there is a schedule in which this can be done. Why must we delay the one thing and go on like Tennyson's brook and never in defense procurement get anything like that except 5 months ago?

Mr. MAHON. Are there any comments on the observation of Mr. Flood?

Mr. MCGUIRE. I think we are making some progress in this field along the lines that you are talking about.

ELIMINATION OF COMPETITION BY NEGOTIATION OF CONTRACTS WITH SOLE SOURCES OF SUPPLY

Mr. MAHON. The staff reported to the Committee that the greatest single contracting deficiency disclosed during the 1957 survey was the repeated negotiation of contracts with sole sources of supply for articles for which plans and specifications suitable for formal advertising should have been available. Cases were cited disclosing this deficiency in the Army, the Navy, and the Air Force. This practice has prevented competitive bidding and broadening of the sources of supply. Higher prices must inevitably be the result.

While continued negotiation with the same source may be justified when the article involved is a very complex military item, we are wondering what justification there can be for the Air Force not yet having specifications suitable for use in buying simple things like commodes for the almost ancient C–47.

Mr. SHARP. There is no excuse for that, Mr. Chairman. This kind of a thing will crop up and we appreciate it being pointed out because this is one of the areas where the staff study was certainly 100 percent correct. Wherever we can obtain competition by having specifications, we should do it. The specifications problem is terrific and enormous. We have so many thousands and thousands of items and comparatively few engineers to do the work that we are always pressed for the talent necessary. We are going out, and I think perhaps a little belatedly, with the idea that on new procurement—we are doing this particularly on ground handling equipment for missiles since this is a brandnew field—we are requiring the contractor to give us specifications in such detail as part of the contract for research and development and initial production, give us such specifications so that they can be used either for sealed bid, formal advertising, or for negotiations with other concerns in an effort to get away from this sole-source problem that you have pointed out.

Mr. MAHON. Is there any excuse why, for example, you could not have specifications on the commodes for the C–47?

Mr. SHARP. I cannot see any excuse for that. It is such a small item I suppose nobody bothered about it, but that is the only excuse that I can think of.

Mr. MAHON. There is the principle involved here and that seems to me important.

SECURING PLANS FROM ORIGINAL CONTRACTOR FOR PURPOSES OF OBTAINING COMPETITION

Along this same line, what are the Army, Navy, and Air Force doing to see that adequate plans and specifications are obtained with

the development contract or the first production contract so that they can be used to obtain competition in subsequent procurements?

We realize, Mr. McGuire, that you have explained some actions you have taken to correct these matters, but you have not said how you intend to police this area to assure compliance with the new ASPR provisions.

Mr. McGuire. As I said, Mr. Chairman, we have issued an ASPR regulation in this field requiring that we get plans and that we get in essence the items that I described. Briefly, the regulation says this: We not only get plans for items developed under our research and development contracts but where there is a question of a proprietary right involved we obtain such rights as are necessary in the manufacture of the developed equipment. This should clear up a good deal in this field.

This change in the regulations will not clear up our own backlog of preparing specifications for existing equipment. As was mentioned in the report on the Signal Corps, the Army has made substantial progress in clearing this up and will have it cleared up by May 1958. The modification of the ASPR which requires that when a sole-source procurement is made the contracting officer must submit this decision to a higher authority for review will help, I think. This discipline will do two things. The first is that the contracting officer, in submitting such a case for review, is going to be pretty sure of his ground and justification for doing it on a sole-source basis; and, secondly, the person up above, if this thing gets too frequent, is going to find out why.

EXAMPLE OF SPECIFICATIONS WHICH LIMIT BIDDING TO 1 OR 2 SOURCES

Mr. Flood. May I point this out: Over the Easter recess at the request of a mattress and furniture manufacturer in my district I went to visit his plant. He showed me seven requests for bids in which he and other experts in the very broad industry—I guess this is pretty big as an operation all over the country—but anyhow, he pointed out to me that he got invitations from about 13 different sources throughout the United States. I said, "Why do you not bid on them? What is the matter with you? Nobody is going to give you anything."

He said, "Sit down and I will show you why."

Even to me he was successful in pointing out the "gimmick" in each one of the 7 and then he showed me 2 that he got last week in which there was no gimmick and upon which he is going to bid.

The first 7 from 7 different places spelled out the X, Y, and Z company and everybody knew it. Nobody else could touch it. There was a "gimmick" in it but you have to be a professional to find it.

Mr. McGuire. I happen to be a mattress professional, too. I used to be in the mattress business.

I would like to see those bids. I would like to get my hands on that one and straighten it out.

Mr. Flood. There were 7 different offices and 7 different gimmicks in furniture and mattresses.

Mr. McGuire. They may call for a certain type of coil or side bind.

Mr. Flood. I would not name the companies but they are two big companies. In the specifications there is one thing so that he who runs may read. Stay away from this one.

Mr. McGUIRE. Of course, the mattress industry, Mr. Flood, has 2 or 3 large national manufacturers, but, by and large, it also is a very large local kind of a business as well.

I would like to see that.

The Army, as single manager for such items, will check with your office and get the facts on that.

Mr. FLOOD. Two other offers came in and he is going to bid on them, but the others he said, "Get away from these."

Mr. McGUIRE. Within the last 60 days we have made substantial progress in cutting down the number of mattresses.

Mr. FLOOD. Mr. Chairman, may I inquire if this has anything to do, generally, with mattresses? On the whole investigation, is that a problem? How widespread is it? Do you people who are closest to this know that?

Mr. MAHON. You get the implications on that?

Mr. McGUIRE. I certainly do. The implication that I get is that we would have something in the specification that would preclude the general bidding and limit it to 1 or 2 sources.

Mr. MAHON. That is correct.

Mr. McGUIRE. That type of thing. If there is no need for this thing from utilitarian point of view, it should be eliminated.

Mr. FLOOD. What?

Mr. McGUIRE. It should be eliminated.

Mr. FLOOD. I am against sin, too. You are against it?

Mr. McGUIRE. Against sin?

Mr. FLOOD. Yes.

Mr. McGUIRE. Definitely.

Mr. FLOOD. And this bad, evil thing should not continue?

Mr. McGUIRE. Correct.

Mr. FLOOD. That takes care of that.

Mr. MAHON. I should like any representatives of the services to comment, briefly, whether or not they know of any tendency, by the varied terminology of the specifications, to channel business into certain directions.

PERFORMANCE SPECIFICATIONS VERSUS MANUFACTURING SPECIFICATIONS

Mr. SHARP. Mr. Chairman, I shall give you an example of where, in buying aircraft tires, we found that, if we specified exactly the way the tire was to be constructed in great detail, how the web was to be put in, we were narrowing it down to 1 or 2 companies who used that particular method, but there were a great many companies who could build a tire and do just as good a job, if we specified the requirements for the use of the tire rather than very detailed specifications. In this case, we used a performance specification on tires and then we can buy them from any manufacturer who will guarantee the performance.

On the other items where we have to have that fit certain spaces, and things of that kind, and where they have to weigh certain amounts in an aircraft, they sometimes have to be specified in great detail so that we will be sure to come exactly within the space requirements and the weight requirements. This whole problem varies from one extreme to the other, where we have very detailed specifications

to the last nut and bolt so that any manufacturer could conform if he could follow the drawing. Then we have the other specifications where the performance is involved.

Mr. MAHON. Please amplify that for the record, if the Navy or the Army have anything to add.

(The following statement was submitted for the record:)

To amplify the Air Force comments relative to the use of performance-type specifications, it must, first, be recognized that few pure performance specifications exist in the Air Force. Most of our specifications contain elements of both design and performance.

As to the advantages of the performance-type specification, it assures (1) that the Air Force will receive an item which will accomplish the job for which it is intended, and (2) that it gives industry an opportunity to exercise its ingenuity and talent in meeting our requirements. As an example, a performance specification has a distinct advantage in the procurement of items which have barely finished laboratory testing and have not as yet been field tested. Here, a design specification would restrict improvement and would probably result in the Air Force receiving a marginal item.

The disadvantages in the use of performance specifications are that they do not provide interchangeability of the items or provide an exact basis for price computation. Varying types of equipment received as a result of the use of performance-type specifications greatly increase our spares inventory as well as our maintenance problems.

Mr. HIGGINS. I should like to say, Mr. Chairman, that is something that we have to be alert to constantly. I have seen these proprietary specifications, and we have run into them in such a case as the one Congressman Flood mentioned over here. Whether this is a special case or not, I do not know, but we will look into it.

Mr. FLOOD. No; it is just one that I found.

Mr. HIGGINS. Let us dismiss that by saying that, if there is no any reason for the restriction, it will be thrown out. because none of us has any patience with this at all. We are against it.

(The following statements were submitted subsequently:)

ARMY STATEMENT

A representative of the Department of the Army (Quartermaster Corps) visited Congressman Flood's office on April 23, 1958, to discuss the case previously referred to by Mr. Flood concerning the inability of a manufacturer in his district to bid on certain mattress procurements due to the restrictive nature of the specifications.

Following this discussion, and at Mr. Flood's request, the Army representative visited the plant of the manufacturer and discussed the matter in detail with company officials. It was learned that none of the difficulties encountered involved procurements by agencies of the Department of Defense nor had the company taken steps to be put on bidders lists for mattress procurements by military agencies.

The company officials were given information as to how the company could participate in procurements made by the Department of Defense. Following this visit, steps were taken by the Quartermaster Corps to have the company placed on the bidders lists of both the Military Clothing and Textile Supply Agency, Philadelphia, Pa., for mattress procurements and the Quartermaster Purchasing Agency in Columbus, Ohio, which purchases furniture for military quarters.

A full report on information developed during this plant visit has been given verbally to Mr. Flood by the Army representative.

STATEMENT BY CONGRESSMAN FLOOD

I should like the record to show at this point following the above statement, that as a result of my inquiries with the Department, I received the fullest and most complete cooperation possible. Immediate attention was given by sending

to the area Mr. Maurice Paradis, Office of the General Counsel, Quartermaster General, Department of the Army.

Mr. Paradis visited me to obtain the details before he visited the area in question. A full and complete investigation of the circumstances was made by him, and the businessmen concerned were high in their praise of this immediate and prompt attention and cooperation to their very difficult problem.

These business people were advised as to the details of forms, procedures, etc., for bidding within the Department of Defense, and were assured they would receive every courtesy and attention if they saw fit to submit bids.

I was particularly pleased that the Quartermaster General's Office went to every effort reasonable and possible, under the circumstances, to examine this type of complaint.

RESTRICTIVE SPECIFICATIONS

Mr. MAHON. In your judgment, are there many abuses in this field?

Mr. BANTZ. I would not say many. Specifications can become so restrictive that we do what Mr. Flood is talking about.

Mr. FLOOD. Have you ever sat in a county commissioner's office in the smallest county and town in the world? If so, you know that the answer is that it is common gossip. It is more than that. This is one of the hazards of the trade, if you take this fellow's experience. You will never be able to cure it all.

I wanted the Secretary of the Air Force to answer this. That is one of the problems that this mattress man experienced. It calls for this man to do it in this way. Mr. McGuire and everybody who makes mattresses knows that that spells out the name of a company with five letters. That is what they do.

Of course, all of the other companies can do that, too, but you and they and all of us know that this has been earmarked and, "Get away from it."

This is his method. That is not right. If it is reasonable and possible under the circumstances to have four other methods known by the trade to do this, and that are equally good, then why is there not this alternative and why is there a prohibition as a result of that specification?

Why should it be there for tires, mattresses, and so forth? Why do you permit that when you know, or should know?

Mr. SIKES. Mr. Chairman, this can be a very serious matter, and I think it is something that the committee staff should do further exploration on. This is quite a serious charge and not one that can be dismissed lightly.

Mr. MAHON. Does the Air Force have any further comment?

Mr. GOLDEN. I think this problem of specifications has been with us since purchasing began. Rules and regulations alone will not solve the problem. We must keep on exhorting our specification writers to be alert to the problem. In our own office, when Congressmen, or others, have brought these cases to our attention, in some cases we have found that these restrictive specifications have crept in. In some cases, there have been no explanations and in others they have been accidental. You have to fight this problem all the time because there are an awful lot of people on the other side of the fence who try to push the specification writers in this direction.

We have just got to bear down each time. Our rules are right. Our policies are right. We have to keep our people on the ball in keeping these restrictions out of the specifications.

Mr. MCGUIRE. May I add one thing? When restrictive specifications do creep in, competitors are usually quick to let us know about

it. Such protests are thoroughly reviewed within the Department of Defense and, where necessary, corrective action is taken. This is the reason I am anxious to have the Army review the mattress cases about which Mr. Flood has spoken.

INADEQUATE SPECIFICATIONS BECAUSE OF LACK OF DRAWINGS

Mr. MAHON. It appears that the Army is unable, in many instances, to obtain the benefits of competitive bidding because of lack of specifications occasioned by the failure to have proper drawings. The staff report of 1956 was critical of this situation in the Signal Corps, and the current report states there has been no reduction of the huge backlog of incomplete drawings.

What are your plans for improvement?

General ENGLER. With regard to the Signal Corps drawings, Mr. Chairman, the staff found that the Signal Corps laboratories had a backlog of some 34,000 drawings which they had been unable to convert to the Government drawings for use in soliciting bids. As a result of a staff report, we did investigate this situation. We found that of these 34,000 drawings actually 15,000 had already been posted to Government drawings although the records did not reflect that at the time the staff visited the installation.

We have required the Signal Corps to expedite and get these drawings on a current basis. They have engaged an outside contractor to assist in this effort. As of the end of January, they had reduced the backlog to some 12,000 drawings and by the end of May, they will be on a current basis. This pertains to that particular situation.

Mr. MAHON. Will that help any? Will that cause more competitive bidding and more value for the dollar in contracts with the Signal Corps?

General ENGLER. With these Government drawings in their possession, they will be in a position to solicit competitive proposals.

Mr. MAHON. I would like to change the subject a bit now.

Mr. SHEPPARD. Before you do, may I ask a question?

Mr. MAHON. Yes.

SOURCE OF SPECIFICATIONS

Mr. SHEPPARD. Do you feel that you have at your command the ability to draw up as much as 50 percent of your own specifications without inviting the trade to present specifications?

Mr. MCGUIRE. Mr. Chairman, I think that depends on the item.

Mr. SHEPPARD. Just take it as across-the-board question. When you put in any items, then you get into deviations. Just take it as an across-the-board question.

Mr. MCGUIRE. What is the feeling on the part of the Navy on that?

Mr. BANTZ. That is a pretty broad question, Mr. Sheppard, and I think in items where industry has had experience, we call them in for a great deal of help and consultation.

Mr. SHEPPARD. Mr. Secretary, I am not criticizing your procedure. I am merely reaching for an answer that had its origin with a question by Mr. Flood. In other words, Mr. Flood's approach to this thing was very evident to people who are familiar with specifications and requirements. Obviously, if I am called in and happen to be a fabri-

cator in a particular field of requirement, it is almost beyond my ability to comprehend why I would not be more familiar with my specifications and productivity in my field than perhaps that of a competitor and it could very easily, in my opinion, become a part of the specifications.

My question was directed as to what is the military's capability of preparing its own specifications, 10 or 2 percent?

Mr. BANTZ. I could grab up in the air and get a figure, but I do not think anybody could answer that question specifically.

Mr. MCGUIRE. I think that part of the problem comes about in answering the question, is that if we are talking about something in common usage, I think the military takes——

Mr. SHEPPARD. My question was not directed to the unknown factors in the field of development, I am talking about commodities in evidence and what is commonly known as shelf items.

Mr. BANTZ. I would answer that to say that industry could furnish a larger percentage of specifications than we could ourselves on the common shelf items.

(The following additional information was furnished by the Standardization Division, Office of the Assistant Secretary of Defense (S. and L.:)

Common off-the-shelf items of a commercial type are covered by Federal specifications. Basically these specifications are prepared by a Government activity. Prior to their issuance, however, they are coordinated with a representative cross section of industry, including both trade association members and unaffiliated companies. These specifications cover a large percentage of the common commercial type items.

DELINQUENT PRICE REDETERMINATION ACTION

Mr. MAHON. The use of contracts with provisions for the redetermination of the price is a recognized method of contracting, but failure to make the redetermination on a timely basis places the Government at a disadvantage in the negotiations. Our staff reported a condition that is of some concern in this area.

ASPR provides that price redetermination not be used unless a reasonable assurance exists that it can be accomplished on a timely basis. However, as of June 30, 1957, there were 438 contracts within the Department of Defense—each over $300,000—on which price redetermination was past due. These contracts involved more than $10 billion. The extent to which redetermination action was past due is as follows: Less than 120 days, 32; from 120 to 180 days, 207; 180 days to 2 years, 141, and over 2 years, 58 for a total of 438. These are big operations.

These delinquencies are in all three services with the worst conditions being in the Quartermaster Corps of the Army.

What specific action has been taken by the Department of Defense and the three services to improve the situation with respect to price redeterminable contracts?

Mr. MCGUIRE. I think each service has analyzed this subject and is prepared to answer this specifically as to their service.

DELINQUENT ARMY PRICE REDETERMINATIONS

Mr. HIGGINS. I would like to call on General Engler.

General ENGLER. With regard to the Army, again this is an area in which we do appreciate this staff report because it definitely called to our attention an area where we should be very aggressive in seeing to it that these repricings are conducted on schedule. As a matter of policy we, however, do not feel that there should be necessarily an arbitrary time established for the completion of the repricing although we should as a matter of policy do it within the generally prescribed time.

We wish to point out that in particular knotty problems of repricing the insistence on an arbitrary time limit might well put our contracting officer in an unsatisfactory bargaining position. With the contractor knowing full well that the contracting officer is obliged to complete his negotiation by a certain time period he may be unwilling to come to terms that we feel are necessary. However, we feel this is very much the exception rather than the rule. We are striving to see to it that the policy is followed.

At the time of the staff report it was indicated that the Army had some 103 contracts, each over $300,000 in value, which were over 180 days past the redetermination date. Following that report instructions were given to our procurement agencies to drive on completion of these repricing actions.

As of February 28 the Quartermaster Corps, which was particularly cited, had cleaned up its particular repricing negotiations as required and we had reduced the number of 103 cited by the staff to 13. We are also requiring a monthly report by all our procurement agencies as to the status of the accomplishment of these repricings and we are following closely to determine the justifiability of any repricings delayed beyond the allowable period.

This briefly describes the situation.

Mr. MAHON. Have you expedited this program to some extent?

General ENGLER. Yes, sir; we have reduced the 103 down to 13 as a result of the staff action.

Mr. MCGUIRE. I would say they have also put in controls in the services to get a monthly reporting of this situation. They are put in a position where they can challenge why on a monthly basis rather than waiting for some staff to bring it out as they had to.

Mr. MAHON. What would the Navy say?

DELINQUENT NAVY PRICE REDETERMINATIONS

Mr. BANTZ. The Navy has been working on it. They have made some improvement. Admiral Clexton has figures here. He is much more familiar on this than I am.

Admiral CLEXTON. We reduced our numbers down to 82 and we have practically eliminated this type of contract in the past year; 96 percent of the contracts we let this year were of the firm, fixed price, the fixed price incentive, or fixed price with escalation or cost plus fixed fee. This type of contract is used more during a buildup for a war. Our older ones, in a great many cases, were held over from the Korean time. They were continuing on those types of contracts.

We do not see the need for as great a quantity of this type of contract any more and prefer the fixed price.

Mr. MAHON. What about the fixed price?

AIR FORCE USE OF CONTRACTS INVOLVING PRICE REDETERMINATION

Mr. GOLDEN. We are all uniform here to the extent management has exerted itself in this area and we are getting monthly reports on redetermination. Actually we have set up very precise goals, target dates, for completion of redeterminations once you have reached the effective point for redetermination.

We find under our figures we have about 63 out of the 220 contracts that we consider have gone beyond the goals we have set. This is not entirely due in many cases to the Services alone. You have contractors reluctant to agree on redetermination prices. You have contractors who give their cost data late. You have the honest and sincere difference of opinion on acceptability of costs and profits. There are a lot of factors entering into this and I do not think you will get it perfect down to zero. You will always have a backlog of disagreement, honest and otherwise.

Mr. MAHON. Do you agree with Admiral Clexton this type contract has very little place at the present time?

Mr. GOLDEN. If I understand him correctly, I do not think we feel the same way. This is one of the contract techniques we all use; it is established in the Armed Services Procurement Regulations. As a matter of fact, in the aircraft engine field we find a great use for it. We have price redetermination where for a period of 8 months or a year we will fix a price and then for the next period of a year we will again fix the price prospectively. It amounts to a series of fixed price contracts but with continuity.

There are a number of types of contracts where we think we need to use it.

Mr. MAHON. Admiral Clexton, were you and Mr. Golden talking about the same thing?

Admiral CLEXTON. We are all heading for the same end result, to get things better and cheaper. We feel that due to the possible contractor delay in telling us what the costs are, his reluctance to agree to the prices and other things, we are finding it better to make a fixed price incentive type contract where we used to use the redetermination of price.

Mr. GOLDEN. As a matter of fact, No. 1, this type of contract is recognized, we all use it. We would like to write fixed-price contracts wherever we can if we have cost information that will permit but a lot of these contracts are new items, a lot run for 3 years or 2 years. It is risky business to write a contract and agree on a fixed price for that period of time.

RESTRICTIVE SPECIFICATIONS

Mr. FLOOD. What are your observations on my question as to restrictive specifications?

Mr. GOLDEN. My attitude is I am the guy who catches the brunt of it in the Secretary's office when you fellows come in and say, here

is a restrictive specification. To me that is a horrible thing. We have stock procurements where——

Mr. FLOOD. We agree it is horrible. Now what?

Mr. GOLDEN. What I am saying is this is one of our toughest problems.

Mr. FLOOD. Oh, well, of course we have identified the condition.

Mr. GOLDEN. This is a condition——

Mr. FLOOD. I am thinking of prophylaxis not antibiotics.

Mr. GOLDEN. This is the art of educating your engineering people to write something that does not get so specific that the particular mattress guy you were mentioning is the only fellow who can produce it. This is educating our people to resist those marginal fellows who try to put the imprint of their product on a specification. This situation existed before my time in procurement, I have read enough of the General Accounting Office decisions to know this. This is a real problem.

Mr. FLOOD. Did you ever try to pick up with your fingers a piece of quicksilver?

Mr. GOLDEN. Yes, sir.

Mr. FLOOD. It is quite a trick.

Mr. GOLDEN. It is a trick.

Mr. FLOOD. Just so you know it.

Mr. GOLDEN. Not only is it a problem here like quicksilver, but it is such a big problem. There are so many specifications for the two or three million items.

CALIBER OF PROCUREMENT PERSONNEL

Mr. MAHON. The staff found procurement activities in the Air Force bases in the European theater have been seriously handicapped by assignment of inexperienced military personnel, officers as well as noncommissioned men; by the time these men become experienced it is about time for them to rotate back to the United States.

An Air Force study pointing out this situation was submitted to Headquarters, United States Air Force, in August 1957. What is the Air Force doing to improve the caliber of its procurement officers in Europe?

Mr. GOLDEN. I think the procurement problem particularly in Europe started off with an awful lot of inexperienced people being sent there in the first rush forward. However, in looking back over the past 5 years we have seen a decided increase in a rotation of the better people in the Air Materiel Command in the ZI being rotated to Europe and the people in Europe coming back into the procurement and supply field in the Air Materiel Command. There is no substitute for experience. You can give a lot of courses and we have varied courses from basic procurement courses, supply courses, to the most sophisticated pricing courses available today and which we are generating today. What we need most of all is experience, keeping the fellow in the particular procurement, production and supply area and we are succeeding in doing that. The time period they are serving is getting longer and before he can be taken out of that particular specialty, certain special approvals have to be obtained.

Mr. MAHON. You take the representatives of industry. They more or less operate on Government money. They have liberal expense

accounts. They have prestige, a great deal of prestige in many ways. Some of them are retired men from the Armed Forces or otherwise. I am wondering if they tend to more or less intimidate these men and officers of lower rank who are in the procurement business.

AIR FORCE NEGOTIATING PRACTICES

In other words, are we negotiating from strength or weakness with industry in the Armed Forces?

Mr. GOLDEN. Mr. Chairman, if the only fellow that dealt with the industry negotiators was the contracting officer, I would say generally we were negotiating from a position of weakness. But we counteract that intense loyalty to the company the fellow has by providing the contracting officer with a team. We give him the best pricing analysts. For example, at the Air Materiel Command for every major contract we have our senior pricing analyst helping the contracting officer. We have our auditor and production people and engineers helping him.

We have gone further in the past year or more. When we come up for these very large procurement negotiations we have what we call a prenegotiation conference. In this conference we have all the people I have just mentioned and more. We have management procurement level at Air Materiel Command sitting down with our negotiating people before they sit down with the contractor. The negotiator goes over what he thinks the proposal should be and how he analyzes the price and kind of contract to use. That is batted back and forth between management people at Air Materiel Command and actual negotiators and they arrive at a position. With that in mind, they give him guidelines and give him parameters beyond which he cannot go.

With that as a basis a contracting officer and negotiator goes into a meeting with confidence. We feel that he is not negotiating from a position of weakness. We think the team concept overcomes that.

NAVY NEGOTIATING PRACTICES

Mr. MAHON. You have heard the comment of Mr. Golden of the Air Force. What does the Navy feel about this same thing? I know there is a general feeling in the country and among Members of Congress that the people who negotiate contracts often do not have the stature and experience and stability they need to buck the best that business has when millions of dollars of Government funds are involved in total in these matters.

Mr. BANTZ. The Navy has a very similar situation to the Air Force in particularly BuAir where we are buying a very complicated mechanism. They use this team concept Mr. Golden was just talking about. It works very much in the Navy as in the Air Force. Admiral Dixon is here today. He is thoroughly familiar with the team concept within BuAir. If you would like to take a few minutes I am sure he would be glad to explain how this team concept works in BuAir.

Mr. MAHON. Give us a little assurance or confirm our fears.

Admiral DIXON. The larger contracts obviously merit the closest examination. I will speak first to our larger contracts. Prior to the negotiation of these contracts my assistant chief for procurement,

Admiral Hines, works with the director and assistant director of our Contract Division to develop the Government position that will be taken during the actual negotiation with the contractor.

We have a team procedure very similar to that of the Air Force. We do a large volume of business, however, and to say we have outstanding personnel to put on every single negotiating team is further than I can go. But we do pay very close attention to the larger procurements and I feel, as Mr. Golden said, we are not negotiating from a position of weakness.

Mr. FLOOD. I might make this observation. It would be strange if that were true. As many businessmen claim you fellows took them because you are too tough and too smart. That washes out 50–50. I get as many complaints from one place as another on that.

(The following statement was submitted subsequently for the record by the Army.)

QUALIFICATIONS OF ARMY PROCUREMENT PERSONNEL

In the conduct of negotiations the Department of the Army relies on the same "team concept" as previously described by the other services. These teams usually consist of both military and civilian personnel and are very effective since they combine the necessary variety of specialized skills not usually found in one individual. For example our military personnel provide the team with a broad knowledge of the commodity involved, an immediate appreciation of the military applications of the items being procured and experience gained in planned assignments throughout the Army. Our civilian employees make a complementary contribution. They bring to the job a depth of specialized knowledge and provide continuity of effort and knowledge of local conditions and practices.

I would like to point out that, even though our contracting officers enter into our contracts, there are many safeguards in the system such as local Boards of Review. In addition, proposed awards of the larger contracts are reviewed by the chiefs of Technical Services, the Deputy Chief of Staff for Logistics and frequently, in my own office. In some cases they are referred to the Secretary of the Army for his review.

The Department of the Army makes an all-out effort to insure that qualified personnel are assigned to procurement positions. The first considerations in assigning such personnel include a requirement for the highest moral character, suitable personality traits, and maturity and experience necessary to make sound decisions. Personnel with these qualifications are then provided various types of formal and on-the-job training. Formal training is conducted in Army schools, civilian universities and also by the various Technical Services on both local and national level. A good example of the formal training is the 8-week course in Procurement Management conducted at the Army Logistics Management Center at Fort Lee, Va. During fiscal year 1958, approximately 400 personnel, both military and civilian, will attend. Formal training is supplemented by various types of on-the-job training in all the Technical Services.

The methods of training and selection of procurement personnel have provided some excellent results. A recent survey of some 1,500 personnel located at various Army procurement installations in the United States revealed the following statistics; with respect to those personnel surveyed who are authorized to sign contracts, 87 percent have received some college training, 56 percent have either a doctor's, master's, or bachelor's degree, a substantial number of which are in the field of business administration. Furthermore, a relatively high percentage have had some type of specialized training related to procurement. Seventy-seven percent have had procurement management training and 30 percent have had either advanced management or supply management training. Fifty-five percent have also had specialized training in contractual matters.

Sixty-seven percent of the personnel who do not have final commitment authority but directly represent the contracting officer in contracts with industry have had college training. In addition, this group has a high level of experience averaging 5 years' related experience in civilian business and 8 years' Government procurement experience.

I am convinced that our procurement organization is staffed by capable, conscientious personnel.

SHARE OF DEFENSE CONTRACTS WITH SMALL BUSINESS

Mr. SIKES. The Admiral stated quite well that the larger contracts do get more especial consideration. That is understandable. There is apprehension that there is a different angle to be concerned about, that it is the larger contractor who gets the special consideration. I know that the Navy, Air Force and Army do not consciously try to divert business to the bigger contractors. Yet I believe there is a definite trend to big business in Government contracts. I know that it is a human and natural thing for your contracting officers to prefer to deal with firms whose procedures they have become accustomed to, have confidence in, and feel they are the people who can do jobs well, with less liklihood of subsequent problems. This does not denote improper procedure, but it does tend to freeze out small business and to promote monopoly. What is your answer to this concern that some of us have that big business is getting altogether too large a share of the Government's contract operations and that it is growing instead of diminishing? I want all three services to answer.

Admiral DIXON. Mr. Sikes, I think one of our greatest endeavors in the Bureau of Aeronautics is to insure an appropriate opportunity for the small-business man. Our master bidders' list, to which we give considerable attention, consists of 60 percent small-business firms. I have a small-business specialist on my direct staff to screen all new procurement from a small-business standpoint.

Mr. SIKES. You say bidders' lists?

Admiral DIXON. Yes, sir.

Mr. SIKES. You have not said anything of those who get the bids. There is a lot of difference between the bidders' lists and a list of successful bidders.

Admiral DIXON. That is right, but you have to face the question of capability. When we contract for a complete weapons system, we immediately are restricted to a very few companies, perhaps 10 or so at the most. Farther down the procurement scale we reach a point that is within the capabilities of the small man and we have procedures in the Bureau for analyzing our procurements to determine at which point they are susceptible to small business. However, the same screening and analysis applies to all procurements whatever the size.

I feel that for the procurements that are susceptible to the less than big business, the smaller firms are getting certainly a fair share.

Mr. SIKES. I have the definite belief that for one reason or another more and more of the Government's business is getting into the hands of a few big firms. Is that right or not?

Admiral DIXON. When you speak of weapons systems procurement, and that represents the majority of our money, you are correct I believe.

Mr. BANTZ. I do not think there is any question that we have to face up to that fact that in the complicated weapons systems we are procuring today unless we can do it through the procedure of subcontracting it has to go to big business.

Mr. SIKES. Doesn't big business usually subcontract work anyway?

Mr. BANTZ. We are continually putting the pressure on them to do more of their subcontracting with small business.

Mr. FLOOD. Will the gentleman yield?

Mr. SIKES. Yes.

Mr. FLOOD. That opens a whole vista of a very big problem. We talk with your procurement people at the uniformed staff level. What Mr. Sikes I am sure has in mind and what I want to emphasize is this question of big, single-business operations doing exactly what he is talking about through the back door. Subcontracting has become one of the most dangerous monopoly operations in the country. Some big business puts up a "mother hen" plant which controls a whole group of satellite subcontractors. They shop around and get prices and configurations on what all kinds of prospective subcontractors will bring in and then to their favorite subcontractor or subcontractors they set up a small little empire which is just exactly what Mr. Sikes is talking about.

We went into that with your uniformed people. You have small groups who are monopolizing subcontracts issued from a "mother hen" plant. That has become one of the greatest evils in the whole small business. Small Business Administration is complaining about it, the loan companies are complaining about it, and now Congressmen and Senators are complaining about it. It has become an evil thing in the last couple of years. I hope you are aware of that.

Mr. SIKES. May we hear from the other two services?

Mr. HIGGINS. I would like to speak to this. You are on small business now, Mr. Sikes.

Mr. SIKES. On the trend toward monopoly.

APPARENT NECESSITY TO CONTRACT WITH BIG BUSINESS FOR COMPLEX ITEMS

Mr. HIGGINS. I should like to say this, Mr. Sikes, that of what the Navy has said about the large missile systems, this is true. This worries us because we have been so very mindful of the small-business man. I shall just recite for the record here what has been done. Five years ago with the Army budget more than double what it is now, $18 billion instead of $5 billion, 21 percent of that fund went to small business. In fiscal year 1957 with it $5 billion, 37 percent of it went to small business. We have been doing a pretty good job here. I cite that as evidence of our sincerity in this.

Mr. MAHON. That is very good.

Mr. HIGGINS. When we come to the complexity of putting out a missile system, as strong as I am for broad distribution of this, as much as I have talked from the other side of this that I am talking now, I do not see any other means for the first or through the development and pilot line production of a missile system than to find someone who has the engineering know-how and responsibility to take on this job and do it.

I cite that for the reason that here is Western Electric who has our NIKE system.

Mr. FLOOD. Speaking of monopolies.

Mr. HIGGINS. If that is a monopoly, so be it then. It has been a wonderful job.

Mr. FLOOD. I was speaking of A. T. & T., Western Electric, they are $2.5 billion operations.

Mr. HIGGINS. That is right. We need the tremendous resources of a company to get a show on the road such as the NIKE system has been.

Let me say at the beginning we must have someone responsible for this system. We learned that to our great regret when we brought out the first missile we had in the Army, the CORPORAL. We split the responsibility and we have regretted it to this day because there it was impossible to pin the posy on any one individual in a malfunction. That has not been true on NIKE.

As we have gone down the road, sir, we have broken out, as we call it, the various components that we felt were the easiest to break out in the beginning. The first were the vehicles. It is hard for a contractor to argue that this van standing out here will cause the missile to malfunction. We broke out launchers and launching equipment and things of that kind to a greater and greater degree so that as we have a chance to get this shaken down and what we call standardized and in production we break it out and get it down into the hands of more and more people.

As a starter I do not see how you could do it any other way than to have it in the hands of someone like Western Electric for this reason. I think it is a very convincing one. When we had to make the change from the former type ground control equipment to the universal, on the changes made on just ground equipment alone they had to put 200 engineers just on that one job. Where do you find 200 engineers today who know a certain commodity?

CHOICE BETWEEN BIG AND SMALL BUSINESS

Mr. SIKES. Let us get into a little different field. Let us take a contract that does not require quite such a big operation, a contract that could properly and well be done by small business. Let us say a big business firm is seeking a contract and so is a small business firm seeking the contract. Both are qualified to do it and have been certified as being qualified. Let us presume your contracting officers want to give the job to the big business firm because they know the firm, they have confidence in it and they feel it is fully able to do the job and will do it right. This implies no wrongdoing on the part of the contracting officers.

Suppose, however, the big business firm wants a little more money for doing the job than the other small business firm. Do you let your contracting officer give it to the big firm for more money just because they know them and like them and like to do business with them? How do you help small business in a situation of that kind?

Mr. HIGGINS. This is not a contracting officer's decision, the one you cite.

Mr. SIKES. He makes a recommendation that goes a long way in determining the award.

Mr. HIGGINS. He makes a recommendation. I have every one of these kinds of cases of the size you are talking about come clear up to my shop and we explore it very thoroughly before a contractor is decided upon. There I take the benefit of the best counsel I can get all the way up the line to make that decision.

We would not think of allowing a contracting officer to make that kind of decision.

SET-ASIDE PRINCIPLE

As to small business, the best method that in my humble opinion we have found is the set-aside principle. Where we have a requirement that is large enough that we can make a set-aside and allow small business to match the bid I think this has been one of the greatest helps we have devised for taking care of the small business and now the distressed labor areas. I think the set-aside is the greatest service we can offer to small business and not pay a price differential which I am very much against.

Mr. SIKES. I don't think you have answered my question but let us see what the Air Force says about this.

Mr. FLOOD. Can you imagine me letting that one go by? It is quarter after 3. We will let that go.

QUALIFIED SMALL-BUSINESS BIDDERS

Mr. SHARP. What I am going to say may not be too popular but I have to say it. I am a small-business man, have been all my life. Right now I am charged with trying to see that the Air Force creates adequate defense for the United States as cheaply as it can possibly produce it. I believe small business is a valuable adjunct to doing this. I have contended we ought to give business to small business not because they are small but because in my honest opinion small business has capabilities of doing things better and cheaper in many cases than large business has. They are more efficient, more ingenious. That is the only way they live. I have been a small-business man and I have been competing with big business and I know you have to be ingenious to do it. I know you can. I do not go on the premise in the Air Force as far as I am concerned that small business as small business ought to get business unless they deserve it. I firmly believe that this is one way we can get more defense cheaper than any other way, by bringing as many in as are qualified.

We are working hard at this. I think the Air Force's small business——

Mr. SIKES. You mean qualified. None of us wants you to give business to people who are not qualified.

Mr. SHARP. Yes. A great majority of them can do a better job than big business in certain areas. I firmly believe this.

Furthermore it gives us more competition and I think the more competition we can get into everything the better our prices will be. It has been proved over and over again in my experience here.

Mr. ANDREWS. Who determines the qualifications of small business?

Mr. SHARP. We have experts who find out whether they think they are qualified to do the job. They cannot pass exactly on the qualifications of the individual but they are experts in finance and production and engineering and we also have our small-business representative with them to see they are getting a fair job. Every single contract that is let in the Air Force is looked at by an Air Force small-business representative, and he has to decide, can this be done by small business or is there any small business that ought to be in it and without his signature we cannot go ahead.

TREND OF PRIMARY CONTRACTS WITH SMALL BUSINESS

Mr. SIKES. Has your percentage of primary contract awards to small business gone up or down in the last 2 or 3 fiscal years?

Mr. SHARP. I do not have the figures right here. My impression is it has gone up slightly in percentage and a great deal in dollars.

Mr. SIKES. Percentage of contracts rather than amount would be the thing to tell the story.

Mr. SHARP. The small-business people do not live on percentages. They live on dollars. If we can give them more hundreds of millions of dollars, they do better.

Mr. MAHON. He is talking about percentage of numbers of contracts.

Mr. SIKES. Percentage of dollars awarded to small business as compared to percentage of dollars awarded to big business.

Mr. SHARP. Over the 3 or 4 years I have been here I would say it has increased. I do not know about this year.

Mr. SIKES. Can you provide those figures?

Mr. SHARP. Yes.

(The information referred to follows:)

The percentage of dollars of Air Force contracts awarded during the last 5 fiscal years to small business as compared to the percentage of dollars awarded to big business is as follows:

Fiscal year	Small business	Large business	Total
1953	4.3	95.7	100
1954	9.8	91.2	100
1955	9.3	90.7	100
1956	8.3	91.7	100
1957	8.2	91.8	100

NOTE.—See additional figures on Army, Navy, and Air Force on pp. 65 et seq.

Mr. SIKES. The percentage has gone up remarkably with the Army. They gave an impressive figure. I would like to have comparable figures for the Air Force now if they are available.

Mr. SHARP. I do not know.

Mr. SIKES. Are they available for the Navy?

Mr. BANTZ. I think it would be well to consider the type of procurement and, as Mr. Sharp just said, where the procurement you are making, the type of thing you are procuring is a natural for small business, that is where they get into it to the greatest degree, in other fields such as weapons systems, to the smallest.

I would like to have Admiral Clexton give you figures and particularly in supply, supplies and accounts and military construction as to the percentage of dollars that go to small business. You may have certain examples such as SIDEWINDER in BuOrd. In the Bureau of Supplies and Accounts a great part goes to small business as in military construction.

Admiral CLEXTON. We were worried in the small-business program of the Navy that due to these weapons systems we would lose out on our percentage to small business. We have run a very intensive program on getting small business even into the missile field. This I would like to report to the committee. The missile is replacing the 5-inch gun, the 3-inch gun. That type of gun ammunition for years

has been bought from small business. Now that we are moving into the missile field the tendency is to give it to big business because they can do it.

We have singled out two missiles, SIDEWINDER and TALOS and by obtaining from the original contractor, who went through the research and development stage and the first production run, a data package, which is specifications, drawings, things of that sort, we have been able to put SIDEWINDER parts out on bids and then buy that way.

This has reduced the price of SIDEWINDER by 30 percent already.

Two weeks ago we tried the same thing with the TALOS missile and the entire airframe of the TALOS was put out on competitive bids. We have the bids in and the price is down about 50 percent on the body of that missile.

This to me proves that if we really decide to do some standardization in these missile items when they get to a point we should standardize; and then get the drawings and specifications and put them out on competitive bids, we can reduce the price of these missiles.

Mr. SIKES. That is a very good example. Mr. Chairman, I should like to ask that the three services provide for the record the percentage of their contract operations both percentagewise and moneywise that has gone to small business for the last 5 fiscal years.

Mr. SHEPPARD. Very well.

(The information referred to follows:)

Army prime contracts awarded to small-business firms—Actual dollars awarded versus percentages of total dollars obligated by fiscal year

Fiscal year	Total obligated procurement	Awarded to small business	Percent to small business of total
1952	$18,704,227,600	$3,959,920,000	21.2
1953	7,076,757,000	2,583,484,000	36.5
1954	4,560,176,000	1,600,472,000	35.1
1955	5,296,106,000	1,903,963,000	36.0
1956	4,428,642,000	1,725,744,000	39.0
1957	5,025,133,000	1,878,575,000	37.0
1st half 1958	1,409,707,000	497,950,000	35.3

Navy small business statistics fiscal year 1953 through fiscal year 1957

[Dollars in thousands]

	Fiscal year 1953	Fiscal year 1954	Fiscal year 1955	Fiscal year 1956	Fiscal year 1957
(a) Total direct purchases	$6,707,511	$3,640,396	$3,921,747	$4,801,434	$5,219,009
(b) Small-business awards	$1,333,310	$790,454	$750,100	$939,002	$1,089,289
(c) Percentage (b) of (a)	19.9	21.7	19.1	19.6	20.9
	Procurement actions				
(a) Total direct purchases	$662	$628	$750	$896	$698
(b) Small-business awards	$474	$458	$552	$667	$736
(c) Percentage (b) of (a)	72	73	74	75	76

The Navy has a small-business team which is continuously engaged in assisting small firms to participate to a greater extent in our procurement programs. This team includes 101 small-business specialists assigned to major naval purchasing activities throughout the United States and 37 industry cooperation representatives assigned to offices of inspectors of naval material. Working closely with contracting officers, this team plays a key part in the placement of contracts with small-business concerns.

Small-business concerns received a high percentage of the procurement dollars obligated by the Bureau of Yards and Docks, Bureau of Supplies and Accounts, and the Marine Corps. These activities procure many items and services which are particularly adaptable to the productive capabilities of small-business concerns. The Bureau of Yards and Docks is responsible for the Navy's construction projects; the Bureau of Supplies and Accounts, through its field activities, procures machine tools, petroleum, hardware, and other items of general supply and supporting components and parts; the Marine Corps procures automotive spare parts, engineering equipment and supplies, household supplies, and galley equipment.

During the first 8 months of the current fiscal year small-business concerns received $169,152,000 or approximately 94.1 percent of the procurement dollars obligated by the Bureau of Yards and Docks, $11,091,000 or 64 percent of the dollars obligated by the Marine Corps, and $370,879,000 or approximately 34 percent of the prime contract dollars placed by the Bureau of Supplies and Accounts.

It should be noted that prime contract awards to small-business concerns do not completely reflect total Navy procurement dollars flowing to small concerns. All of our prime contractors are continuously being urged to place a maximum number of subcontracts with small-business concerns. Based on selective surveys, it is estimated that during the first half of fiscal year 1958 approximately 20 percent of prime contract dollars awarded to large firms was subsequently channeled to small firms on a first tier subcontract basis. This compares with 23.1 percent in the last half of fiscal year 1957 and 20.1 percent during the first 6 months of fiscal year 1957.

The percentage, moneywise, of Air Force contracts that have gone to small business during the last 5 fiscal years is as follows:

Fiscal year	Total awards to industry	Awards to small business	Percentage awarded to small business
1953	$14,210,598,000	$608,778,000	4.3
1954	5,693,683,000	556,715,000	9.8
1955	6,172,296,000	576,815,000	9.3
1956	8,276,856,000	685,839,000	8.3
1957	8,792,299,000	723,469,000	8.2

PRIME CONTRACTS

Mr. FLOOD. On Clexton's shop, I have had a lot of experience, as you all know, with that. Let us talk about your predecessor and you. I will say that that Navy materiel operation on small business have knocked themselves out and gone way beyond, I think, the call of duty in a lot of cases on surveys and reports and conferences for at least 8 or 10 years that I can speak of. They have made a special problem out of what we are talking about for a number of years.

Mr. SHARP. I can give you some ball-park figures that are fairly accurate, which I will furnish for the record in more detail. Of the kind of business that small business can get in on at all, outside of the engines and big airplanes, we have this year about 63 percent of it going to small business. Of the first-tier subcontractors, where we surveyed eighty-some-odd of the big subcontractors, the first-tier subs, all sizes, 21 percent of it went to small business. This is some indication of accomplishment in this field.

Mr. SIKES. I should like, Mr. Chairman, to have the figures for the prime contractors, not the subcontractors. I think we should have those over the last 5 years and the percentage of the total contract operations, not just the percentage of business that can be allocated to small business.

Mr. SHEPPARD. In response to the gentleman's inquiry, are you prepared at this time, or do you have any background statistics wherein you can supply the amount of subcontracts that have been issued by the prime contractor to small business?

Mr. MCGUIRE. On that subject, we started a survey for a reporting system on this on a group of 120 of our major contractors. That report has been in existence about a year. We can furnish that for the record and, also, furnish it on the latest figures as it comes along.

Mr. SHEPPARD. That would be good. You should indicate, for your own protection, the amount of the total business involved which you are using this as a criterion for because, otherwise, it might be left in an assumptive position on the part of members of the committee that would be erroneous.

(The material referred to follows:)

Prime-contract awards

	Fiscal year 1958 to Feb. 28	Fiscal year 1957	Fiscal year 1956	Fiscal year 1955	Fiscal year 1954	Fiscal year 1953
Percent of total dollars of procurement awarded as prime contracts to small business	15.3	19.8	19.6	21.5	25.3	16.6
Number of prime-contract dollars, in millions, awarded to small business	$1,635	$3,783	$3,475	$3,214	$2,902	$4,608
Payments to small-business military subcontractors, by 216 reporting companies:						
Amount, in millions	(1)	$3,470				
Percent of their total military receipts	(1)	20.9				

[1] Not yet available.

NOTE.—The prime-contract data for fiscal year 1956 and earlier years include awards to business firms and to educational and nonprofit institutions.

CAN PRIME CONTRACTORS BE REQUIRED TO SUBCONTRACT WITH SMALL BUSINESS?

Mr. SIKES. I am not hostile to big business. Big business has done fine work in many instances. I do feel that there is a trend toward centralization of contracts in the hands of a few major concerns and, if so, that is a direct invitation to monopoly, which I think in the long run could be very damaging to all American business.

Mr. FLOOD. On that same thing, Mr. Sikes is talking about prime contractors; do we need laws; can you do anything about it even if you wanted to; can Congress constitutionally do anything about it? What I am concerned about is the next step from Mr. Sikes. What can any of us do to prevent a small coterie of large prime contractors monopolizing for themselves and their white-haired boys the vast cream in dollars and numbers of the subcontracts? Do we have any right to say to a prime contractor, "We look over your shoulder at subcontracting"? The bad thing that is developing now, if it is not what Mr. Sikes is worried about, if the answer to him is "No; you have no problem," what is the answer to me? I have got a bad

problem, the one I raise. Can you do anything about it? Can we do anything about it? What do you people think? Do you know what the problem is? I am sure you do.

Mr. McGuire. If you are asking me, Mr. Flood, as to whether or not we can insist, in the case of a prime contractor, that, first, we buy a product from him and require that he deliver that product as we require, and then turn around after we have done that and tell him where he should go and what he should do, in this respect I do not think we can.

Mr. Flood. Do you have to do a Pontius Pilate? Do you have any interest?

Mr. McGuire. I think we do have an interest.

Mr. Flood. What can we do? How can we help? It is developing into a cancer in this whole problem of defense contracts. It is a new racket. It is a couple of years old. If we do not cut it out now, it will be a cancer. It is a bad one.

Mr. McGuire. I do not personally see that it is a racket, sir, and I think that there are a number of companies that have very fine programs of getting the small-business fraternity, if you want to call it that, exposed to their contracts and supplying them with goods.

Mr. Flood. Do you not know that they go around to prospective subcontractors and say "tell us this, tell us this, tell us this," and what to do in an entire area within the jurisdiction of that prime contract at the end of which they call me up and say "Bid this."

Do you know that is going on at great length?

Mr. McGuire. I do not recognize that, Mr. Flood; no.

Mr. Flood. Oh, really; that is the end of that one.

AIR FORCE APPROVAL OF SUBCONTRACT STRUCTURE

Mr. Sharp. I would like to comment on that as far as the Air Force goes, when you ask what we can do.

Mr. Flood. Yes.

Mr. Sharp. We have put into our contract that we must approve the subcontractor structure, and that there shall be no change in this subcontract structure.

Mr. Flood. What does that mean?

Mr. Sharp. That means that we do not say to the prime contractor, "Do all of your subcontracting with small business", but we do say he has to get competition in the subcontracting wherever available, and we put in the contract a clause that says that we have the right to approve his subcontract structure. For instance, Boeing on the B–52 only builds about 50 percent of it. The other 50 percent is distributed all around, but we approve that subcontract structure, and we can control it through this contract position.

AIR FORCE APPROVAL OF PROCUREMENT STRUCTURE AND METHODS

Also we have contract arrangements in which we approve their procurement structure—I mean their procurement—not only their procurement structure, but their procurement method. In other words, if they are going to subcontract, we have to know that they have a system that allows everybody to bid on it that is capable to bid on it.

Mr. FLOOD. Mr. Chairman, this is an extremely interesting and a very, very important statement. I submit to you, sir, that there is no more important thing in procurement, following out what Mr. Sikes says, and using that as the base and then going on to this question which I raise as discussed by the Assistant Secretary of Air.

There must be serious, immediate, and direct attention given to this whole business of subcontracting.

BIG BUSINESS SUBCONTRACTS WITH SUBSIDIARIES

In the last 5 years many big companies have decided, anticipating this business recession in which we are now in the middle, that they themselves are not going to give out this business. We are going to do it. Some of them do it directly, and others say "We are not going to be Santa Claus," and they set up a series of obviously phony satellite corporations.

Mr. SHEPPARD. Well, of course, the gentleman, I am sure, is certainly conversant with another factor here, which is a very pertinent one, and that is if the Government goes into the market to procure X item, and hypothetically, they pick on the "Flood Co." or corporation, to produce a watch with all the intricate appurtenances that go into it, and if they are going to hold him responsible for the ultimate production of that watch, I do not think they have a legal right to tell him he has to have the wheels of the timing apparatus within the watch made by B corporation, and hold him on an equal premise of responsibility.

Mr. FLOOD. I agree with that.

Mr. SHEPPARD. How are you going to resolve this problem where about 90 percent of the corrective aspect is controlled by one factor, and they have actual negotiations with the prime contractor to the degree where necessary as to what you want him to do?

APPROVAL OF SUBCONTRACT STRUCTURE

Mr. FLOOD. That makes sense, but this Air Force man is getting pretty close to it, and if he is that close to it, why are not the other two? If they have these rules and regulations, is there a chance that we have in so many parts of the Government where they are not executed and carried out?

If this Air Force man is that close to what I am talking about—and he sounds like he is awful close—why are not the Army and Navy people doing precisely what he is doing?

Do you have any regulations such as he described? This is going to be a murder case on Monday morning.

Mr. SHEPPARD. That particular question in my opinion falls under the cognizance of the Secretary of Defense's Office, and Mr. McGuire, would you please respond to the question?

Mr. MCGUIRE. We have a uniform procedure in this field, Mr. Sheppard, in the three services, and I would like Mr. Bantz to confirm that factor, and also Mr. Higgins.

Mr. HIGGINS. Well, I think you have painted an erroneous picture here, Mr. Flood. I do not think this thing is what you say it is here at all. If you are referring to a half-dozen missile systems, I agree with you, but if you are referring to the great bulk of our procurement,

I disagree with you as far as the Army is concerned very, very definitely, because we think the record speaks for itself as to what we have done for small business, and how we are working on this problem every day. It is under control.

BIG BUSINESS SUBCONTRACTING WITH ITS SUBSIDIARIES

Mr. FLOOD. I am not talking about prime contracts. We have finished with Mr. Sikes' question, and that is clear. Everyone agrees with what you are going to do. I am not talking about that. I know what you are doing. You would know better than I what the Army is doing, and you are doing well. I know that, but this new thing is a new gimmick developed in the last few years, and it is getting worse every day.

This Air Force man alongside of you is telling us what they are doing in the Air Force, and he knows what I am talking about, and he has told us what he is trying to do about it, and what the regulations are, and how they police them.

In other words, he has a rifle on it.

What are you doing about that problem, and are you policing it?

Mr. HIGGINS. Define for me this "new thing."

Mr. FLOOD. That is not very flattering if for about an hour during which time we have been discussing this you do not know what I am talking about. I am talking about a plant engaged in big business which sets up phony corporate satellites to take over the subcontracts under the jurisdiction of a lot of newly-hired, unpaid vice presidents.

Do you not know that in the whole area of defense procurement there has developed in the last few years a decision by great big prime contractors not to award subcontracts because they want the business for themselves?

When they do award them under pressure, or by decision to avoid criticism, they set up a lot of satellite corporations to whom they give the subcontracts. Finally, when they do it legitimately they get in touch with, say, 50 subcontractors, with leg men going to the offices all over the United States, and say, "We are going to subcontract the following business. What do you think about it? What do you want to do? What do you have to show us?" Then, they take all this material back and they go to subcontractor Sheppard and they said "Look, Mac, here is the dope; you bid." They have captive subcontractors all over the United States.

Do you not know that is going on?

Mr. HIGGINS. Well, I have watched for this every day in my job, and hearing this testimony here, you would think that this——

Mr. FLOOD. You fellows are in an ivory tower down there.

Mr. HIGGINS. We are not in an ivory tower; no, sir. I am looking at these things every day of my life and that is my job.

Who are these satellite corporations? Let us name some of them.

Mr. SHEPPARD. Just a minute, Mr. Flood, let me do it for you.

Out in the West in California the local plant in Los Angeles, Calif., created a subsidiary to do certain work out there on component production. They also were operating in the field of overhaul and maintenance for the Air Force and for the Navy. Due to the recession in that workload requirement there were a tremendous number of people laid off and it became a very unfortunate situation. I am not charg-

ing you with being responsible but here is the parent company with over $2 billion of backlog which they cannot work out for the next 18 months. What is happening to the subcontractor supervision in that instance? You tell me.

Mr. HIGGINS. This does not happen to be one of my contractors.

Mr. SHEPPARD. This is something which Mr. Flood is referring to, and you say you people do not understand these things.

Mr. FLOOD. You have more courage than I have, Mr. Sheppard.

I would not think of making a complaint to this outfit.

Mr. SHEPPARD. If you do not, you had better learn.

Mr. FLOOD. Yes.

Mr. HIGGINS. I should ask my colleagues who are dealing with this firm to answer that question.

Mr. MAHON. May I interrupt for just a moment?

Mr. SHEPPARD. Surely.

WEAPONS SYSTEMS PROCUREMENT CONCEPT

Mr. MAHON. I have asked the people in industry from time to time to tell me what is wrong from their standpoint. Of course, they have a personal interest, and they keep saying to me "Mr. Mahon, watch this weapons system operation."

They say that the Defense Department wants to buy an integrated weapon and they go to a big contractor. They give me examples, and they say that the big contractor will peddle this around among other small companies and after getting information from these other companies, the big prime contractor manages to give this business to a favorite or to some satellite, and that this is very bad.

Mr. FLOOD. Of course it is.

Mr. MAHON. I think most of them admit theoretically that this weapons system idea is good, but not good from the standpoint of business in general because it gives big companies opportunities to gobble up the business, particularly at a time when business is going downward.

Do these people tell you that, Mr. Sharp?

Mr. SHARP. Yes, sir; I hear that a great deal.

Mr. MAHON. Well, it sounds sensible to me. It sounds like they have a point.

AIR FORCE APPROVAL OF SUBCONTRACT STRUCTURE

Mr. SHARP. In a way they do, but I have to come back to my statement of a minute ago: Our first job is to defend the United States. There may be other ways of doing it, but we do not know right now of a better way of being sure we are going to get a weapon without putting the total responsibility for that weapon in some one person's hand. We do not have the capability in the Air Force with advanced scientists, and so on, or enough of them, to manage these big programs such as the ballistic missile, and with reference to the ballistic missile, we would not want a different scheme. We contracted with a group of scientists to supervise this program and did not give any weapons system contract to any one person. This is one way of doing it. That is the first time we have tried this method, and how far we can go with it I do not know, but if we do not do this,

we would have to for instance, in the case of the B–52 bomber, make Boeing the prime contractor for the complete weapons system and put the responsibility entirely on them to see that this bomber works and not on a lot of other people, with the exception, of course, of the engines, and we furnish the engines.

Mr. MAHON. What you are doing, of course, in many of these instances is that you are going to these big contractors, and you are saying, "Here is a pot of tax dollars. You go out here and make contracts with industry and spend the tax dollar yourself."

Mr. SHARP. But, here is where our contract clause comes in, and this is why we put this contract clause in. With the weapons system contractor we tell him he must submit his subcontract structure for our approval before he can go on with the contract. I admit that this does not solve all the problems, but at least we have the power to do it if we administer it properly.

Mr. FLOOD. Do the other two Departments have the same power?

Mr. SHEPPARD. They all do.

NAVY APPROVAL OF SUBCONTRACT STRUCTURE

Mr. MAHON. What would you say from the standpoint of the Navy, Admiral Claxton?

Admiral CLEXTON. We have the same system, and the two examples that I gave you of the missile SIDEWINDER and the missile TALOS are, in fact, subcontracts. We went to the prime contractor, and said "These pieces of the missile you have are now standardized, and you will get bids on them and we want to see the bids."

This is what occurred, and when we saw the bids we said, "You must buy at that low bid."

Mr. FLOOD. That hardly proves the rule. It is an interesting exception. Those are red-handed, and the spotlight is on them. But you have a $40 billion operation sitting across that table, and I am not talking about missiles and just one weapon system. I am talking about the whole business that has developed recently.

ARMY APPROVAL OF SUBCONTRACT STRUCTURE

Mr. HIGGINS. May I say something to this, Mr. Chairman?

Mr. MAHON. Surely.

Mr. HIGGINS. I want to come back and name names again. We will take the latest illustration that I can think of there in the Army of a missiles system that has been let, and that is the HAWK missile, with Raytheon. Raytheon is the responsible prime contractor. The first business of my area in the Army was to find out what Raytheon was going to make and then what they were going to subcontract, and with whom they were going to make the subcontract. Then, I packed my bag and went to these plants, and I did not find any satellites. I found people like Aero-Jet who were going to make the motors, and who were probably the most qualified for it. I found vehicle people who were making the vans and people like Northrup Aircraft who were making the launching equipment.

Mr. FLOOD. That is not what I am talking about.

Mr. HIGGINS. Well, let us take the tanks.

Mr. FLOOD. You and I have talked about the Raytheon operation for years.

Mr. HIGGINS. This is the latest system that we have coming into production now. Then, take, for instance, our M–48 tank.

Mr. FLOOD. You and I have talked about Raytheon 5 years ago.

Mr. HIGGINS. I do not believe our contract had been let then.

Mr. FLOOD. I know that, but we went through the Raytheon situation.

Mr. HIGGINS. If I could use another big item, take the M–48 tank, produced by Chrysler. Continental up at Muskegon makes the engines, and I do not think they are any satellite. Allison out in Indianapolis makes the transmissions, and they are transmission people. There is a pretty good-sized operation over at Scranton, Pa.

Mr. FLOOD. I had much to do with putting it there.

Mr. HIGGINS. That is not a satellite over there, I do not believe. So, I am gunning for these things wherever I can find them, but I do not find them in our big expenditure items going to a single prime contractor.

Mr. MAHON. Off the record.

(Discussion off the record.)

SUPERVISORY AUTHORITY OVER NAVY'S AVIATION SUPPLY OFFICE

Mr. SHEPPARD. I should like to ask you gentlemen of the Navy this: One of the major problems in the aviation supply field is the management authority exercised over Aviation Supply Office by the Bureau of Aeronautics and the Bureau of Supplies and Accounts. This matter has been called to the attention of the Navy on previous occasions.

What authority does the Bureau of Supplies and Accounts have over ASO, particularly over control of funds for aircraft spares?

Mr. BANTZ. Mr. Sheppard, the first part of the question I should like to answer, and then ask Admiral Arnold to answer the second part of the question.

Mr. SHEPPARD. Surely.

Mr. BANTZ. We have, as I think most of you men know, convened a Committee last January as a result of a number of complaints that we had about the lack of support parts. I spent 3 days on a carrier which was on a secret mission, and talked to the maintenance and supply men on the ship during the course of that visit. Partially, as a result of that we convened this Committee which made a very exhaustive study and as a result of that we are doing some things now that I am sure—and again I cannot say what the solution will be—that will take care of the situation.

I should like to ask Admiral Arnold to answer the other part of the question.

Admiral ARNOLD. With regard to the funds for the procurement of materiel by the Aviation Supply Office carried in its inventory, Mr. Sheppard, we have no control over that in the Bureau of Supplies and Accounts, because it is in the Bureau of Aeronautics' appropriation, both Aircraft and Related Procurement and also Aircraft and Facilities, Navy.

So, the matter of funds for the procurement of material is under Admiral Dixon. The funds for the operation of the Aviation Supply Office—the funds that pay the people, come from my Bureau.

Mr. SHEPPARD. Another question which I would like to have on the record, gentlemen, is this:

What authority does the Bureau of Aeronautics have over ASO activities, particularly with reference to funds?

Admiral DIXON. Mr. Chairman, the Bureau of Aeronautics requests the funds and defends the request before the Congress. After appropriation, the funds are apportioned to the Bureau of Aeronautics, and are made available to the Aviation Supply Office by the Bureau of Aeronautics.

PRIME CONTRACTORS FOR DEW LINE

Mr. SHEPPARD. I see. Just a moment ago, gentlemen, we were discussing the situation within the framework of the prime contractor procedure.

Quite recently there was a very interesting development in the Air Force which had to do with DEW line operations in which I was advised by the representative of the Air Force under official inquiry that they had selected the Western Electric and the RCA corporations as the prime contractors for supplying the electronic devices that were to go within the buildings which were constructed for housing purposes, and also to have charge of the construction work as well.

Now, my premise of thought may be completely erroneous, and if it is, I will be very happy to have you correct it, because I do not want to reach an improper conclusion. Wherever you have a management contract of that character, what is your financial arrangement wherein the management organization, be that whomever it may be, as to their percentage for management compared to the total dollar application?

Mr. SHARP. I think since Mr. Golden actually worked with this particular contract with Western Electric on the DEW line, he might speak to it more authoritatively than I can.

Mr. SHEPPARD. Very well; we shall be glad to hear from Mr. Golden.

Mr. GOLDEN. The DEW line work is done, and as we spoke, several years ago when we were building the thing——

Mr. SHEPPARD. I am not speaking about past tense. I am speaking about the situation now

Mr. GOLDEN. No. 1, we do not have one prime contractor there. RCA is one prime contractor. We finally decided to have a separate contract for the communications system which brings the information gathered down into Colorado. So, we have split that up with Western Electric being a prime for communications work and RCA being the prime for its phase of the work. So, we do not have for the moment the overall question of whether there is a management fee involved.

Mr. SHEPPARD. As I interpret your statement up to the moment, those two prime contractors which you have referred to are operating as prime contractors in the field of electronics that they are supposed to supply under the contracts issued to them; is that right?

Mr. GOLDEN. Yes, sir; that is right, sir.

Mr. SHEPPARD. Now, did you or did you not put them also in charge of the construction work on the buildings within which the apparatus they produced were to be located?

Mr. GOLDEN. Yes sir.

Mr. SHEPPARD. Why did you do it, and upon what premise, and what is it going to cost us?

Mr. GOLDEN. I think, answering the last question first, the cost is a pretty hard thing to put your finger on now. It is very difficult to know. Western Electric has just about completed its engineering survey, for example, of what will be needed in bringing the information down through the communications system. For example, they have been up in Canada for the past 6 weeks now, surveying the present system, and surveying the various routes through Canada. They have considered all existing communication facilities like DEW line, and so forth, and they are considering the commercial communication facilities in Canada.

ELECTRONICS PRIME CONTRACTORS IN CONSTRUCTION BUSINESS FOR DEW LINE

Mr. SHEPPARD. Mr. Golden, apparently I misphrased my question, and that is not your fault. It is mine.

I can well understand those wonderful organizations being called upon to provide electronic mechanisms that are necessary and to lay down a format of transference and the other requirements with regard thereto. However, the thing that annoys me and disturbs me is why did you put them in the construction business when they have never been known to construct anything themselves? I am talking about construction.

Mr. GOLDEN. Actually, with reference to the construction business, it is not yet determined how much construction there is going to be. For example, one of their latest proposals is that there will be very little construction.

Mr. SHEPPARD. Just a minute. I do not want to waste your time nor mine, nor the committee's time. There are going to have to be some buildings constructed in which to put these mechanical devices, are there not?

Mr. GOLDEN. Yes, sir.

Mr. SHEPPARD. Now, my contention is, and I want you to tell me whether it is wrong—and I give them every credit for their ability in the electronics field—but when it comes to putting the mortar and bricks together, why did you put them in that business?

Mr. GOLDEN. Are you talking about the present contract?

Mr. SHEPPARD. Yes, sir.

Mr. GOLDEN. First, there is a time element involved. We have tried wherever we can, after the DEW line episode, to put the Corps of Engineers into construction. As you know, we did it up at White Alice, and on the DEW line Alaskan extension. In this one the consensus to date is that the time element involved for construction and the kind of construction involved is the kind of thing that is related to the communications facilities that are going down.

Mr. SHEPPARD. Surely; granted, but wait a minute.

Mr. GOLDEN. I am leading up to your question.

Mr. SHEPPARD. I am very serious about this. I am talking about the mortar and bricks and cement and nothing else. I do not see how it could possibly be conceived but what someone would have to design what was necessary. So, obviously, in these circumstances these gentlemen are the definitive people?

Mr. GOLDEN. Yes, sir.

Mr. SHEPPARD. Once it is defined, then I ask you why do you have to put them in the actual fabricating field? They themselves have to go out and get contractors to do it because they have never had a reputation in that field of function, and so obviously if they do that, then you still have your Army engineers with their capability in construction work.

If they do that, in my mind's eye I can see a 7.5 percent or 10 percent override for additional service which in my opinion they have no business doing.

You please tell me whether I am right or wrong.

Mr. GOLDEN. The answer is this, and I have to give you this a little at a time for this reason: Western Electric determines the kind of communication facilities that are coming in and they are going to design the kind of brick and mortar that will take the communication facilities. Our principle has been that, if you can design it and then take the time to put it out on bids, the Corps of Engineers will do it. However, if you have to design and develop the kind of particular construction involved, and also work on it at the same time—that is, do constructing—in view of the time limitation the Western Electric people have been asked to manage that. In terms of fee I cannot tell you what that fee is on the new contract, because it is hardly negotiated, but you will recall 2 years ago on the DEW line we told you that on construction work subcontracted, Western Electric as the management agent was given half the fee it received on intricate work that Western did, in which it was specialized.

I think the fee was about 6 percent on work that Western Electric did in their own specialty, whereas, on construction work they were given a 3 percent fee.

So we compensate for the kind of arrangement we are making. Now until we find out what kind of construction is going to accommodate the communication lines it is not a dead certainty who will do that construction. As to the detection site, it has already been determined that the Corp of Engineers has the design and construction responsibility.

I think in view of the time limitation and from past experience that if we have to design, develop, and start building all at once, improvising as we go along, it will be very difficult for the Corps of Engineers to do this. I am not, however, in the construction part of the Air Force.

Mr. SHEPPARD. If you are going to interject that procedure, then you are changing my philosophy. But up to now that is the first time that you have told me—I do not know what you have told others, perhaps, differently, which is your privilege—that there was to be a definite understanding insofar as the total A. and E. work pertained. They determine first the mathematical complexity and square footage, and so forth of instruments within the buildings. The buildings themselves are not an intricate situation. Anyone who has any sense in engineering knows that today if you get a blueprint laid down that

you need so many square feet, so many feet of elevation, and so much workload, and so forth, we have a million contractors throughout the country who do that type of work.

Mr. GOLDEN. Yes, sir.

Mr. SHEPPARD. My only question is just why we find ourselves as a convenience or as an economical justification putting that kind of people mixing bricks and mortar.

Mr. GOLDEN. I think about the only justification I can give you in terms of experience is that if it is the kind of thing they have to work on, since they are installing the equipment and designing——

Mr. SHEPPARD. In other words, what we are going to have to do is, first, build our mechanical device, and then we have to determine when we get them on the job whether we are going to use a 2.5-ton resistance weight or whether we are going to have a 75-degree angle to support the pipe going off the left-hand corner of the building?

Mr. GOLDEN. You talk like an expert, Mr. Sheppard. I am no construction man.

Mr. SHEPPARD. Neither am I, under modern concepts.

Mr. GOLDEN. I might add this: We have a lot of problems in construction——

Mr. SHEPPARD. You surely have, and I am going to make a suggestion, although I do not think it will do much good.

It might be well if you keep the people who direct the electrical impulses into the atmosphere out of the cement and brick business, and we will be a lot better off.

Mr. GOLDEN. As you know, we did that in Alaska.

Mr. SHEPPARD. You can go back and bring us more up to date, but in going back you will find where we have had some very costly experience in, for instance, Morocco.

NAVY BUREAU OF AERONAUTICS FUNDS FOR THE AVIATION SUPPLY OFFICE

I would like to ask you this question, please: What method does the Bureau of Aeronautics follow in making funds available to the Aviation Supply Office? What is the technique applied there, gentlemen?

Admiral DIXON. Mr. Chairman, ASO provides us with the basic support factors that become a part of our budget pricing. They also submit inventory data, projected requirements, and procurement necessary, all of which are incorporated after appropriate review in the aviation estimates presented to the Congress.

There are two basic categories of spare support. First there is the support peculiar to the aircraft or missile, or to a major component of the aircraft or missile. The other category consists of common, general use, aeronautical material, such as A–N Specification nuts, bolts, tires, and pilot protective flight gear. All of these common-use items come under the maintenance and operation appropriation. We submit our estimate, and quite often our spares request is decreased. When the money is appropriated, we allocate a part of what is provided us to ASO to buy the required spares support.

Mr. SHEPPARD. How are they made? Quarterly or annually?

Admiral DIXON. I did not quite understand your question, Mr. Sheppard.

Mr. SHEPPARD. How are the allocations made to which you referred?

Admiral DIXON. It depends to a great extent upon the apportionment available to us. When the money is apportioned, we allocate.

Mr. SHEPPARD. You would not have me believe that you are suffering under repercussions from enforcement; would you?

Admiral DIXON. Our allocations to ASO must come out of the apportionment. Of course, this is a continuing process and often the apportionment comes in increments. Normally we give ASO an annual planning amount, with quarterly limitations on the totals provided or tentatively planned for the year, as the case may be.

Mr. SHEPPARD. What specific changes have you made or do you contemplate making in ASO policies and organization?

Mr. BANTZ. I think, Mr. Sheppard, we will have to defer the answer on that until we are through with our recommendations and our work as a result of the committee's work that has just finished studying it.

Mr. SHEPPARD. As soon as you have put that train on the track, I wish you would let the committee know, because it might have a tendency to decrease some of our cumulative headaches as we go along.

Mr. Chairman, and colleagues, while, perhaps, I have been somewhat critical this afternoon, I think it is more than fair that we have a kind of a seventh-inning break here, and pay our compliments to some of the techniques which might be followed.

It was only recently that I observed a transaction on the part of the Procurement Division of the Air Force in which they held up letting a contract for practically 38 days for the purpose of getting transportation quotations from Alabama over a short haul which would make a differential of 8 cents per unit on batteries.

So, I will have to give you credit, gentlemen.

You are looking at some of the minor details in some places.

Mr. BANTZ. We surely are.

Mr. SHEPPARD. That is all I have to say, but I do think there is some good along with the bad.

Mr. FLOOD. They should insist that the battery cases be made out of anthracite coal, and I will go for that.

Mr. MAHON. I wish to ask some questions here. You may edit your answers for the record if you wish.

GOVERNMENT-TO-GOVERNMENT AGREEMENTS

It is realized that the method of contracting through government-to-government agreements may be unavoidable, but the Committee would like to know whether OSD has taken any steps to have the agreements rescinded or, if that is not feasible, modified so that some of the undesirable features may be eliminated.

Mr. MCGUIRE. Negotiations for government-to-government agreements concerning procurement are undertaken by the Department of State in conjunction with the Department of Defense through the Office of the Assistant Secretary of Defense (International Security Affairs). In these negotiations, it is the policy of the Department of Defense to obtain the right to contract directly with private contractors or to utilize the agencies of the host country to effect such procurement. Generally speaking, the United States has been suc-

cessful in achieving these arrangements; but even where the United States has the right to procure directly, it is often found to be more advantageous to utilize the agencies of the host government. France has insisted that all major procurement by United States forces stationed there be directed through its agencies. Generally speaking this has worked out well, although of course initially some problems existed in carrying out an arrangement of this nature. Recently, however, Headquarters EUCOM has concluded a new arrangement with the French contracting agencies looking toward an improvement of the indirect procurement procedures, but no change has been or is being made in the requirement for procuring through the French Government. The advantages of the government-to-government form of contracting are as follows:

1. Whenever a foreign government has existing or proposed contracts for same or similar items, the United States requirement could be added generally at a saving in end item cost and administrative procurement costs (contract solicitation, negotiation, inspection, payment, audit, etc.).

2. Procurement is more expeditious when the required item is made in a foreign government arsenal, shipyard or other facility and the only party to contract with is that foreign government.

3. Procurement is facilitated when the item desired is immediately available from foreign government stocks.

4. Where the item was of foreign government design and technical changes and interpretations of specifications would be necessary, only the foreign government would be competent to make required decisions. Similarly only they would be competent to assure contract performance (inspection).

5. Where United States contracting officers are unaware of sources for the item to be procured or of the integrity, capability, etc., of the firms or industries involved, the existing and experienced foreign government procurement agency can fill the deficiency.

6. Where it is desired that a foreign government share in the cost of the item (when the item is to be given to that government after delivery), this type of contracting is more advantageous than employing other administrative devices.

7. United States administrative costs of procurement can be minimized by utilizing services of foreign government for costs of contract placement and administration.

EXCESSIVE USE OF TIME AND MATERIALS CONTRACTS

Mr. MAHON. Both armed services procurement regulation and the service manuals discourage the use of the time and materials type contracts except under the most pertinent circumstances. Such contracts provide no incentive for the economical utilization of direct labor because the more direct labor used, the greater the contractor's profit. Use of this type contract should be limited to those instances where it is not possible to estimate accurately the amount of work or to anticipate costs with any substantial degree of reliability. However, our staff found a tendency for Air Force contracting officers in Europe to award time and material contracts and to renew them year after year with no attempt to convert to a less costly type of contract. What does the Air Force feel about this?

Mr. SHARP. The use of time and material contracts in Europe has been checked and the following statistics obtained.

In fiscal year 1956, 15 time and material contracts were let, in fiscal year 1957 there were 46, and in fiscal year 1958 as of March, 52 had been written. Of the total number of contracts (113); 30 were new contracts without option clauses, 58 were new contracts containing option clauses and 25 were renewals of old contracts under option clauses.

In the group of 25 contracts which were the result of renewals under option clauses the following source testing was made:

Contract renewals:	*Additional sources tested*	Contract renewals—Continued	*Additional sources tested*
2	15	2	3
3	6	2	2
2	5	3	1
5	4	6	0

In the case of the six contracts renewed under option clauses without testing, one or more of the following conditions existed:

(*a*) Basic contracts had been negotiated within a 4- to 6-months period prior to renewal.

(*b*) Labor rates approximated the minimum required under German labor law.

(*c*) The contract called for a discount on labor rates if the option were exercised.

(*d*) Comparative price information was in the possession of the reviewing authority for comparison.

The staff commented on the fact that the file for contract AF 61 (517–128) "reflected no reason for a difference between the contract hourly rate of $3.16 and the contractors proposal of $3.07." The reason for the difference in rate was that the contract actually provides for 212 personnel whereas the contractors proposal was originally for 229 people. This resulted in an increased rate from 3 marks, 7 pfennige to 3 marks, 16 pfennige. The hourly rate of pay was in deutsche marks and not dollars. The staff was also concerned that the contract contained an option clause, but was renewed by supplemental agreement and not under the option. In this case the option called for a 1 percent discount on labor costs, but by price negotiation and an amendment to the scope of work a 2.5 percent discount on labor cost was obtained. As the renewal no longer met the terms of the option clause, the contract was extended by a supplemental agreement.

The staff allegation concerning late approval of the referenced contract is in error. The contract was manually approved (approval signed) at USAFE, and a message to that effect sent to the contracting officer on June 25, 1957. It was the delivery of signed copies of the approval sheets which was delayed until July 24, 1957.

The Air Force has established a definite policy in regard to the use of time and materials contracts. Their use is restricted to the extent that they may be used only after a determination has been reached that no other type of contract is suitable to the anticipated procurement. This determination of suitability resolves itself to those instances where it is not possible at the time of contract placement to estimate the scope of work involved or to achieve realistic pricing. After a time and material contract is let, the Air Force requires proper

surveillance of the work performed to insure that inefficient or wasteful methods are not used.

FAILURE TO EFFECT TIMELY TERMINATIONS

Mr. MAHON. The staff reported that some Air Force installations are not prompt in initiating action to terminate procurements of items excess to programed requirements. In reviewing 31 items at one installation that were on procurement it was found that it took from 8 to 317 days after the item was found to be in long supply to notify the contractor to stop production. Such failure to act promptly not only results in increased termination charges but also adds to the accumulation of material excess to the needs of the Air Force. At another installation questions raised by the staff concerning such delays apparently caused the Air Force to terminate a number of procurements that were questioned, with a resultant savings to the Government of over $100,000. It is gratifying to note that during our investigation the Air Force issued a directive recommending that no more than 5 days processing time be permitted from the determination that cancellation is in order to advising the contractor. It is hoped that this recommendation is followed. What is being done to see that it is?

Mr. SHARP. The directive of September 3, 1957, instructed commanders of air materiel areas and depots to establish a period of 5 days as the maximum processing time, from the determination that cancellation is in order to advising the contractor of such cancellation. The air materiel areas and depots have issued instructions to insure compliance with the directive and have established procedures to insure continuity of action in this area.

CONTRACT TERMINATION

Mr. MAHON. The staff reported that unlike the Army and Navy, Air Force regulations do not give contracting officers authority to terminate contracts for default. Investigation by AMC is necessary before a decision is made and if default is decided on, AMC names a termination contracting officer. In fiscal year 1957 only 1 percent of all delinquent Air Force contracts were referred to AMC for default investigation and only 60 default terminations resulted. AMC investigations average 90 days. These procedures have caused a weakening of the contracting officers' prestige, serious delays in obtaining supplies through reprocurement, additional costs to the Air Force and a tendency to string along with the delinquent contractor rather than recommend termination for default. Why does the Air Force not give the contracting officer authority to deal effectively with such delinquencies?

Mr. SHARP. The Air Force agrees with the overall conclusion of the staff report concerning concentration of contract termination authority in Headquarters, Air Materiel Command. Consequently, on February 10, 1958, authority to terminate contracts for default was redelegated by Headquarters, Air Materiel Command as follows: (1) to Air Materiel Areas and Air Force depots with respect to contracts issued by these activities; (2) to Air Materiel Areas for contracts issued by other major commands; and (3) to Air Research and Development

Command on contracts issued by that command. However, since Wright Air Development Center is physically located at Wright-Patterson Air Force Base, HQ, AMC, will continue to administer default cases arising out of WADC procurements. Contracts issued by HQ, AMC involving default will continue to be handled by the HQ, AMC Readjustment Staff Division.

Mr. MAHON. If AMC investigation is deemed necessary cannot the time required to make them be cut down to a more reasonable period?

Mr. SHARP. In fiscal year 1957, 244 contracts were submitted to Headquarters AMC for investigation for default. The average time required for investigating and disposing of these 244 contracts was 52 days. Of the total of 244 cases submitted, 89 contracts were eventually terminated for default. The average period of time required to process these 89 contracts was 54 days. Seven contracts were terminated for the convenience of the Government at no cost to the Government. Thirty-one of the contracts were terminated for the convenience of the Government and processed as cost settlements. In the remaining 117 cases, no basis for defaulting the contractor was found to exist, the items were still required and the contracts were, therefore, returned to the buying offices concerned for processing to completion. We are not aware of any instance wherein Government requirements were not fulfilled or were unsatisfied because reprocurement could not be made during a default investigation. The report fails to cite illustrations of this general conclusion. On the contrary, AFPI 8–2006 (g) on page 899.99–1 specifically states:

> Such reprocurement may, however, be effected *prior* to the notice of default cancellation in those instances when the reprocurement meets the criteria for a public exigency contained in ASPR 3–202. [Italic supplied.]

Where an emergency does *not* exist, then it is preferable that a reprocurement not be made until it is determined that a default does exist and the contract is so terminated. The basis for the latter statement is found in the Comptroller General of the United States Decision No. B–85968 rendered August 2, 1949 (reported in volume 29, pages 57 and 58 of "Decisions of The Comptroller General of the United States") which held that where a reprocurement has been effected the excess costs occasioned by such reprocurement because of the default of the original contractor—

> may not be charged against the contractor unless the contractor's right to proceed with delayed deliveries *had been terminated* by written notice to the contractor. [Italic supplied.]

Thus, if a reprocurement is made prior to the issuance of a default termination the Government could be estopped from enforcing the assessment of excess costs against the defaulting contractor for the reprocurement.

We do not agree with the staff's conclusion that the reason only 1 percent of the delinquent contracts have been reported for default investigation is that the Air Force procedures create a reluctance on the part of the procuring contracting officer to report the delinquencies. As a matter of fact, and especially during the past year, various methods to make the procuring activities more cognizant of such matters have been placed into operation. For example, monthly reports have been sent to each activity showing the status of their contract delinquencies and the number of such cases submitted for default; staff surveillance visits have been made to the activities, and

the delinquencies and suggested methods of correcting them have been discussed, and training programs have been held from time to time. The factual data delineated earlier in this answer negates the staff's statement that an average of 90 days has been required for investigating and issuing a default termination. In some instances, a specific case may very well take longer but this is the exception.

NAVY CONTRACT ADMINISTRATION

Mr. MAHON. Contract administration in the Navy was found by our investigations to be weak. The material inspection service, responsible for contract performance is primarily interested in quality of production and, in cases reviewed, has not carried out its assignment of expediting contract performance, nor has it kept the contracting offices informed as to performance, and deliveries under the contracts. These failures prevent the contracting officer from handling his assigned responsibilities in contract administration. In one case where he was not kept currently informed of delivery delinquencies, aircraft were actually grounded for lack of orders being purchased under the contract before the contracting officer took action to remedy the delinquencies. What does the Navy feel about this?

Mr. BANTZ. The report comments in some detail regarding deficiencies in the administration of contracts. The need for development of more positive measures for control over contract administration functions, particularly contractor performance, has long been recognized by the Department of the Navy. Existing procedures now in use were developed for the most part during World War II, and these procedures have been revised over the years to accommodate only necessary changes in current conditions and because of new or revised legislative regulations. However, it has always been recognized that the development of new procedures and the revision of existing procedures must necessarily be regulated by the serious limitation of available manpower.

Recent procedures developed by the Office of Naval Material (Navy Procurement Directive 8–001, ONM Instruction 4850.82 and 4850.83A) have specified a new concept of "team operation" concerning Navy contract administration functions. This concept delegates specific responsibility to each member of the procurement and administration team, and requires positive timely decisions and specific actions concerning the various situations which may occur during contractor performance of the contracts. In addition, this concept also specifically delegates the overall responsibility for coordination and control of contract administration to a team captain, the contracting officer.

Statistical studies of this new concept have indicated a marked improvement in the administration and performance of Navy contracts. Consistent with available manpower, new and additional procedures will be developed along similar lines.

Mr. MAHON. Gentlemen, I think you have done a good job in your testimony today, and you have been very helpful. I look upon this hearing and this report and the information which you have already submitted to us as a kind of a textbook which we can use as a point of information in the future. So, I am very much pleased to develop the information which you have presented.

Off the record.

(Discussion off the record.)

Thank you very much, gentlemen. The committee will now stand adjourned until 10 o'clock tomorrow morning.

WEDNESDAY, APRIL 16, 1958.

Mr. MAHON. We will resume our hearing, gentlemen.

DIRECT SUPPORT CONCEPT

The direct support concept contemplated an increase of authorized stock levels at overseas airbases, a minimum of reliance upon replenishment support from centralized overseas stocking points, and direct shipment to the overseas bases by air and surface from the primary depots located in the United States. This plan would phase out the three large depots in Europe whose operations have been criticized in previous reports from this committee. The staff was assured that the huge stocks at Burtonwood in England, Nouasseur and Chateauroux would not be dumped on the bases but would be redistributed only as requested by bases to fill requirements.

"DUMPING" DEPOT ASSETS

If such instructions were issued they were not followed. The staff found that one base in England received parts and equipment valued at $3.5 million that were neither requested nor needed at the base. Other bases also received supplies they did not order.

Disorganized redistribution such as this will certainly create chaotic conditions at the bases equal to those found at the depots. I would like for the best qualified person in the Air Force to answer some questions. Was the Air Force aware this was taking place?

Mr. SHARP. I certainly was not aware of it. You say "this." You mean redistribution. I was of course aware of the fact that we were trying to have direct support. I was not aware of the things happening which the report says happened. General Dau is an expert on the supply system. I would rather have him answer the question.

Mr. MAHON. I think General Dau would be the proper one to respond. Will you comment on the situation and specifically answer first this question: Was the Air Force aware that what I have described was taking place?

General DAU. No, sir; and beyond that we are unable to confirm the allegation. The instructions are very clear that dumping will not be allowed, that the stocks that are placed on the bases are by requisition from the bases themselves.

Beyond that we have standing instructions that any supply difficulty of this nature or any other nature will be reported to our headquarters for correction. No such report has been received.

So the basis for the allegation is not clear to us.

Our assessment of the area both by Air Materiel Command and by the United States Air Force in Europe does not confirm that situation.

Mr. MAHON. I can hardly believe the staff report is in error. In view of the fact that you are not aware of the existence of the facts which are alleged, let me ask you to make a further study of this situation in connection with the staff report and in connection with the information which you received from the depots overseas and give us real, authenticated information on this.

In other words, the staff alleges that 1 airbase in England received parts and equipment valued at $3.5 million that were neither requested nor needed at the base. I do not think we will have any trouble identifying the base and the facts. Will you please find out something about that?

General DAU. Yes, sir, we will have an official communication on that.

(The following information was supplied later:)

UNSCHEDULED SHIPMENTS BY DEPOTS TO BASES

On page 39, part II of the report to the Committee on Appropriations, United States House of Representatives (January 1958), on the procurement, supply, and surplus operations, Department of Defense, it is alleged that base supply officers, formerly supported by Air Force depots located at Burtonwood, England; Chateauroux, France; and Nouasseur, Morocco; had received unscheduled shipments from these depots. One example cited was a base in England which had received spares and equipment, valued at $3.5 million, which were neither requested by nor needed at the base.

This headquarters has investigated these allegations within the affected Air Force commands and could find no basis for the statements of the committee investigators including the specific case of the unscheduled $3.5 million shipment. There were minor receipts of misdirected shipments but, in no instance, including the $3.5 million case, was there any indication of dumping by the depots to accelerate their deactivation programs. The Air Force policy prescribed that the bases would order materials and supplies within prescribed levels, storage and handling capability, in support of maximum use of Air Force assets available from the European depot phase-down program.

Mr. MAHON. Therefore, my next question as to what has been done to correct the situation would not apply.

DIRECT SUPPORT VERSUS DEPOT SUPPORT

Has the Air Force made an evaluation of the direct support concept as implemented to date so that its merits can be compared with the depot system?

General DAU. Yes, sir. Starting several years ago we went into direct support in relatively limited areas. This includes first the Northeast Air Command in which the depot was discontinued. Subsequently the Alaskan Air Command discontinued its depot. The supply support was better. Of course, we removed this amount of property that had properly been in a depot. We cut down the total quantity required, in other words.

The same principle now is progressively being applied in both the European and Far Eastern areas.

Mr. MAHON. I wish you would check this situation very carefully. Of course, if you have a depot that is well supplied and you start a new type of supply system, you will have a problem and there will be some difficulties that would take some time to iron out. Please make your response in the record very specific and responsive to the identical and precise question I have asked you.

General DAU. Yes, sir.

(The information referred to follows:)

The basic philosophy of Air Force materiel support has been undergoing evaluation for some time prior to the approval of the direct support concept and the adoption of the improved European logistics program. This evaluation of the Air Force logistics system has been a progression of many studies and test projects conducted over the past 6 years. The successful results of these studies and tests have led to the institution of the direct support concept on a time phased basis. One of the initial studies conducted in 1951 was an impartial inquiry into the Air Force supply system called "A Program for Air Force logistics" and commonly known as the Harvard Study. It concluded that the theory of abundance in materiel, including long pipelines with intermediate depot complexes overseas, was too costly and recommended their reduction and elimination. In 1952, Project Red Head tested this concept as applied to the support of a B–50 wing on rotation overseas with gratifying results. Further evaluation of this concept by Project Sky Way was a test applied to aircraft engine support worldwide and continued to prove the merits of direct support with greatly reduced investment in backup stocks of expensive items. Again, during 1954 and 1955, additional projects were instituted to test direct support of B–47 units. These studies, Project ALP (advanced logistics project on high cost items), covered the entire logistics support responsibilities, and included a representative range of supply and transportation requirements for the Air Force units involved. As a result of these studies and tests, it has been determined that the direct support concept will insure the accomplishment of approved war plans and achieve maximum effectiveness, flexibility, and economy in the use of available materiel. Further evaluation is not contemplated since it has been determined that the direct support concept is more responsive to the needs of the oversea customers than is the support received through intermediate, large scale, industrial-type depots in oversea areas.

Mr. SHARP. If I am not mistaken, there was a trial run on the F–100's in Europe, was there not, General Dau? Was it not very successful, they were supported better by the direct support method than previously by the depot; is that correct?

General DAU. Yes, sir; it was tried out in the European area to a larger extent than that. In the first instance rotational units both of Strategic Air Command and Tactical Air Command were supported through what we call Air Force Manual 67–1, Volume XVI procedures, which provide that tactical units being temporarily deployed overseas for training, will be given direct support by the appropriate Air Materiel Command depot from within the continental United States. This proved very successful and we accomplished an effectiveness of supply support never before attained under the old procedures. These same procedures, although originally designed for the support of rotational units, were later, in a modified version, applied to certain integral units of United States Air Force in Europe. This also proved highly successful and in the end, after further testing, which I previously referred to, resulted in the adoption by the Air Force of the direct support concept for overseas commands.

EXCESS STOCKS IN SUPPLY SYSTEM

Mr. MAHON. Although Air Force records indicated excess stocks amounted to only $168 million, staff observations lead to the conclusion that the excesses are actually many times that figure. At a Japanese depot the inventory exceeded the authorized retention level by $37 million. Records indicated no activity in 12 months for items valued at $25 million. At the Osan-Ni Air Force Base, Korea, there has been no inventory since the Korean conflict. It was estimated that there were 12,000 items at Osan-Hi for which there were no records. Some Air Force commands have embarked on supply improvement

programs and have accomplished a great deal toward purging excess stocks (and identifying usable stocks, also) but additional efforts are needed.

What is the Air Force doing in an effort to reduce and eliminate excess stocks and what action has been taken regarding conditions at Osan-Hi? You may edit your answer for the record.

General DAU. The Air Force is making a great effort to reduce and eliminate excess stocks from the supply system. It is recognized that this must be a two-pronged effort designed first, to eliminate the entry of stocks into the system which may become excess in large volumes at a later date and second, to eliminate existing excesses at bases and depots. Among actions recently taken are:

(*a*) The quarterly recomputation of requirements and detailed quarterly management reviews of the results of these computations. These frequent reviews of requirements serve a twofold purpose, in that production schedules may be adjusted as indicated by the computation and excesses already in the system can be eliminated on a more frequent basis.

(*b*) The use of inventory segmentation procedures in conjunction with the requirements computation serve to highlight long supply areas in monetary terms and focus the attention of high level management on these areas, resulting in additional pressure to revise production schedules or eliminate existing excesses.

In conjunction with a more frequent recomputation of requirements and the use of inventory segmentation reports, we have implemented a phased procurement concept which holds down the production input of initial spares into the Air Force for new weapon systems until better usage data can be accumulated through the actual operation of the weapon system. For the elimination of local excesses generated at Air Force base level, we have implemented the Air Force supply improvement program.

Under procedures set forth in AFM 67–15, each major command selects and trains supply improvement teams, usually one for each numbered Air Force. Team members, including both supply and maintenance specialists, are drawn from base and headquarters personnel. Bases are scheduled for participation in the improvement program on a rotational basis with the SIP team spending 6 weeks to 2 months at each base. These teams first review unit stocks and equipment and supplies which are not needed are purged from the system. Base stocks are likewise purged through examination of every line item in the stock record account. Maintenance panels then determine whether standby levels should be established for those items for which past issues do not justify base stockage. The effect of past and future programs on stockage requirements is considered. Excesses are promptly redistributed or disposed of. The base organization is reviewed and its procedures are streamlined for more efficient and effective supply operation.

Air Force disposal procedures which are applicable worldwide have recently been revised to tighten up organization and improve management concepts. One of the most notable basic improvements now being implemented under the new procedures is the intergation of the excess and disposal program at all levels under a small group of experts in this functional area. This is expected to speed up the screening of excess for reutilization and the processing of surplus through disposal.

It is realized that the elimination of excesses from the Air Force supply system must be a continuing program since, from a dollar point of view, the majority of the spares in the system are recoverable by repair. Only a small percentage of these items wear out through use. The majority are repaired and returned to use during the life of the program, at the end of which they must be disposed of as surplus. The elimination are control of excess stocks has become a major command objective of the Air Materiel Command and is being given a priority of action comparable with that accorded mission support.

The following action has been taken to improve conditions at Osan-Ni.

(*a*) A team of qualified supply technicians was placed on temporary duty at Osan-Ni in January 1958. To date all property has been located and rewarehoused, and a complete physical inventory has been taken. Stock record cards are being prepared or adjusted as required.

(*b*) The team, in conjunction with the permanently assigned personnel, will jointly begin reviewing and adjusting all stock levels based on actual consumption data. After this is accomplished, all quantities of items on hand in excess of the computed levels will be redistributed to fill shortages or processed as excess.

(*c*) The deadline date for the completion of the entire program is June 30, 1958. Reports indicate that the program at Osan-Ni is on or ahead of schedule and that the accounts will be ready for audit by June 30, 1958. Progress at Osan-Ni is being closely scrutinized at all levels. Project reports are submitted on a semimonthly basis.

Every effort is being made to prevent any recurrence of this situation, however, in areas such as Korea, the supply function has a continual problem of determining what facilities are required and what spares to hold due to indefinite programing. There is also a problem of maintaining good supply discipline in areas such as Korea. This is aggravated by the short tours of duty for personnel in hardship areas and the Air Force has found it frequently necessary to take extraordinary action through the use of highly qualified supply task forces to maintain Air Force standards of supply operation. It is considered that in view of the problems outlined above, the Air Force has done a prudent job in rolling up the operation and handling the excesses left on hand in Korea at the termination of the war.

SUPPLY PERSONNEL WITH INSUFFICIENT TRAINING OR EXPERIENCE

Mr. MAHON. The staff found the experience and skill levels of the Air Force officers and airmen in the supply field has been a large contributor to difficulties experienced in the supply function. The supply operation is apparently considered a soft core area. Personnel with minimum capabilities were assigned to supply work. Officers with no previous supply training or experience were assigned to positions of responsibility in the field of supply. Officers and airmen find that advancement is easier in some other fields in the Air Force. There is little incentive apparently to make a full career of the supply service. The Director of Supplies and Services indicated an awareness of deficiencies in the selection, training, and retention of personnel in the supply service. He informed us of a plan designed to make supply more attractive as a career and to encourage the assignment

of more capable personnel to the supply areas. The plan has not yet been adopted. Its need seems to be obvious. Can you tell us what this plan is and the status of its implementation?

General DAU. The plan is to categorize the various jobs as to importance, then to make specific assignments of various supply officers to these jobs in accordance with the importance of the job and their rank and then to have a detailed followup of each career from the Air Staff in Washington.

That should tend to control the progress of the better people through the supply system. It is in the process of being formulated in the Pentagon. It has not actually been implemented.

Mr. MAHON. Approximately when do you think it will be formulated and placed into practice?

General DAU. I would estimate within the next 6 months, although it will have to be progressive, of course, sir. The people are in place and it will have to progress as people move.

SINGLE MANAGER SYSTEM

Mr. MAHON. The staff reported that expansion of single manager plans is being resisted within the military services and that apparently because of this resistance, no studies to determine the feasibility of making further assignments were underway at the time of the staff survey.

1. Will you give us your comments on this alleged resistance and tell us why studies regarding further assignments were not being made?

2. What are the Department of Defense criteria for determining what supplies and services should be placed under single manager plans?

3. Is it the present policy of the Office of the Secretary of Defense (Supply and Logistics) not to issue a directive on any subject unless there is complete and unanimous prior agreement with the directive by each military service?

4. Under the circumstances (3), is it historically possible to issue a directive establishing a single manager for general supplies or automotive material for example, which will take away some functions from some services and have prior agreement by all of the military services?

5. As has been indicated, the committee staff report indicated the implementation of single manager assignments were not moving along as fast as they could.

You may expand your reply.

Mr. MCGUIRE. Initially, there existed some doubt within the military services as to whether the single manager system could meet their operational requirements more efficiently and economically than their individual systems. Therefore, it was expected and natural that any expansion would be resisted until the current assignments had proved themselves. As time went on and they saw that this technique could do the job, the resistance had waned.

Further expansion of the single manager system was determined by the Secretary of Defense on January 31, 1956, when he stated that such actions would be determined after a careful study of savings as well as the advantages and disadvantages of this type of operation,

recognizing that the primary mission is to effectively support the military effort of the country.

It was recognized at the outset that this new management technique would require a period of time for its full impact. The time that has elapsed is not considered unreasonable, if we recognize the magnitude of the task to be performed. The employment of this system has had wide ramifications involving many functions. The transition had to be orderly and well planned if we were to accomplish our prime mission of effectively supporting the military. A new concept of funding and budgeting had to be developed and implemented. Extensive field studies to determine distribution areas and facilities to be used had to be made. Stocks had to be repositioned. Personnel had to be transferred to new locales in order that the skills required to do the job would accompany the functions. Many other new concepts, procedures, and actions had to be developed and implemented for which little, if any, precedent existed.

Recently, a study involving the problems we are experiencing in the commodity assignments has been completed as part of the logistics systems study project. The findings relative to this part of the project are being evaluated. We are currently engaged in studying the service assignments after which a similar evaluation will take place.

It is now considered appropriate to fully explore areas which might lend themselves to extension of the single-manager plan. Accordingly, an S. and L. policy statement, as a corollary action to the LSSP studies, directs that during the remainder of calendar year 1958, such explorations will be made in addition to seeking out means for improving the current single-manager operations.

A single-manager assignment should be made if it will produce an overall increase in efficiency and economy. To do so, it must involve a service common to all of the military or a commodity which has a high degree of commonality or of potentially increased commonality (standardization). Such other factors as size of inventories, sales, number of items, method of distribution, current operations, etc., must be considered in making commodity assignments. Every commodity must receive attention based on the peculiarities of that commodity. No set of criteria is pertinent to every commodity. The only criteria they must all meet is that integration through a single-manager assignment will produce an increase in efficiency and economy and not jeopardize the military effort of the country.

There is no S. and L. policy which prohibits the issuance of a directive unless there is a complete and unanimous prior agreement with the directive by each military service.

CATALOGING

Mr. Mahon. The report of the staff submits that the Air Force implementation of Defense Cataloging and Standardization Act has experienced delays to the extent that many of the planned benefits are not yet realized and additional expenses are being incurred because of the need for elaborate cross-reference catalog libraries at all levels. The present procedure in assigning Federal catalog numbers to parts that are peculiar to a particular aircraft needs improvement. Is the

Air Force reviewing its cataloging procedures to see that unnecessary delays and research to identify parts numbers are kept to a minimum?

General DAU. Yes, sir, we are; but there is no easy solution to that problem, Mr. Chairman. A little history: In 1956 we were working under a plan to convert by Federal class. In other words, all items that went into Federal class would be published as a new supply class and all conversions made.

We found that was overambitious and we could not find all the items that were going to end up in that class until we went through the entire list.

Therefore, in late 1956 with the concurrence of the Department of Defense we changed ours to what is more comparable to the other services and simply an item conversion.

You must recognize at the present time we are dealing with partially complete Federal classes and remnants of many Air Force classes. It is bound to be a much bigger job than you would normally expect.

We are not behind schedule to the extent that we are going to finish this year just as the other services are going to but I do not believe you will have any easy solution of this question of referencing back and forth.

One example is the thousands of technical orders, information of that type, which have stock numbers in them. Obviously if this month we change one number and next month another, we would not go through all of these and reissue them. So we have to do it periodically. I think that is due prudence. Meanwhile the operators do have the problem of referencing back and forth to be sure they have the right number. We make it as easy as we can but there is no simple solution.

Mr. SHARP. Mr. Chairman, this is probably the painful process we go through when converting to the Federal catalog. I think until we completely convert, which we are supposed to do by the end of this calendar year, we will constantly have these problems. I think after we have completely converted they will probably be completely eliminated.

Mr. MAHON. The staff found that the Navy has experienced difficulties and delays in conversion to and utilization of Federal catalog. The Navy is still using large numbers of blueprints carrying old numbers. Thousands of hours are needed for research on these old prints before parts can be properly identified and obtained for the warehouse. What is the Navy doing to expedite the cataloging program?

Mr. BANTZ. Cross-reference intelligence from manufacturers' part numbers and Navy stock numbers to applicable Federal stock numbers is being made available by the inventory managers to all Navy operating activities. Accordingly, field activities should not need to consult blueprints for determination of the proper Federal stock number of an item if they know either the manufacturer's number or the former Navy stock number.

Under the Federal cataloging program, the Navy completed identification of all its items of supply by December 31, 1956, which was in accordance with the Department of Defense schedule. Currently, all new items are identified by Federal stock numbers as they enter the supply system. By July 31, 1958, all Navy items will have been converted to Federal data ahead of schedule.

EFFECTIVENESS OF AIR FORCE SUPPLY SUPPORT

Mr. MAHON. I have a question as to the effectiveness of supply support. The records of base supply operations reviewed by the staff on a worldwide basis disclosed unsatisfactory conditions in the supply support of first-line aircraft. A sampling of 8 bases showed immediate fill rates of requisitions ranging from a low of 30 percent to a high of 63 percent. Depot fill rates on requisitions from the eight bases were little better. Such rates directly, of course, affect the combat readiness of aircraft.

The staff also observed that cannibalization is practiced extensively to keep aircraft out of an AOCP (Aircraft Out of Commission for Parts) or ANFE (Aircraft Not Fully Equipped) status. This presents a favorable operational readiness report but is very misleading when used as a gage of effectiveness of supply support.

Now I am sure the Air Force agrees there is need for improvement in the immediate fill rate and we would like to know what specific program you have adopted—what specific program you have adopted—to bring this much-needed improvement about.

General DAU. If I may, I should like to discuss that a bit because we are caught in somewhat of a dilemma. The nature of demand for technical items of supply is such that about 85 percent of the items are of a random demand nature and, for example, if you had 20,000 items to support an aircraft, only about 3,000 would have a regular demand. The other 17,000 would be sporadic.

That being the case, it is understandable that each base cannot have the full 20,000. So, therefore, your percentages are not too alarming as long as you have a reasonable system of rapid resupply.

I think we have explained the supply-improvement program where one criterion is to reduce the number of line items on a base so the people there can manage what they have better. Obviously, if you reduce the numbers, there is going to be less immediate fill.

To counteract that, we have tried this scheme. This is standard policy. For cheap items, expand the range, even though we know many of them will not even be issued for a year. But it does not cost us much to put them at base level.

Admittedly here is a dilemma. If you put too many there, then maybe they cannot manage even the cheap ones. It is a question of compromise. I do not believe the rates cited are too unusual. Particularly in new aircraft, your sporadic demand is really rough, as long as you have resupply.

I should like to comment on the point of so-called cannibalization. Recognizing the character of this demand, if an aircraft goes into maintenance for a periodic check or some other reason, while it is in maintenance it is only logical, if another aircraft needs a part that is not normally stocked there, that you pull it off of this aircraft and give it to the one to make it ready. At the same time you pull it off, the people are supposed to submit what we call an anticipated AOCP, aircraft out of commission for parts.

In that way we are doing good business. We do not use the word "cannibalization." We used controlled redistribution of parts because it must be controlled. Cannibalization as such, of course, would imply a practice that would result in hangar queens that would never get serviceable.

Mr. MAHON. There is either validity to this complaint or not. It seems to me to be valid certainly. Do you mean to say you are doing all you can do about it at this time?

General DAU. Yes, sir; I think under the circumstances we are doing exactly right. To get total immediate fill we could not afford to buy enough stock to put every item on a base. We could not afford the number of people to manage all of them.

Mr. MAHON. You would put in too heavy an inventory and build up too many spare parts?

General DAU. Right. We take the most probable items, put them at the base, and then afford a means of rapid resupply.

Mr. MAHON. Did you have a comment, Mr. Secretary?

Mr. SHARP. I was going to say when you brought that out there is a solution but the solution is carrying an excessive amount, we think, of inventory dollarwise. We could have enough inventory to take care of everything. As these airplanes age, as they go along in their operation, different things fail and we do not know what they are going to be. If we had every piece in such quanity to take care of every possible requirement that might come up, we would have such an enormous stock on bases we would be criticized for having extreme amounts of excess all the time. This would be unavoidable. We do not know what is going to happen to airplanes after they have been in use a couple of years. Different things fail after 2 years than after 1 year.

Mr. MAHON. You may further amplify your response for the record.

(The following was subsequently supplied for the record:)

EFFECTIVENESS OF SUPPLY SUPPORT (INCLUDING EXCESS STOCKS IN SUPPLY SYSTEM)

Research and continuing studies conducted for the Air Force by the Rand Corp. forcibly confirm the erratic and unpredictable demand rate of aircraft spares and the economic undesirability of attempting to finance a complete range of these parts at our bases.

Significant conclusions from the Rand studies and Air Force experience are that low average demand rates are characteristic of most aircraft spare parts. During a year's period at some bases studied, as many as one-third of the available spare parts had no demand, and three-fourths had so few demands that they offered no reliable basis for estimating future demand. Demands for most spare parts also tend to be sporadic. Even when the demand rate for a part is known for some past period, the future demand during a similar period cannot be predicted with any accuracy.

The pattern of demand for B–47 aircraft spare parts, vary comparable to experience for other types of aircraft, graphically illustrates the above conclusions. These data are based on observed frequency at selected locations of demand for B–47 parts during 1,300 aircraft-months. This experience is roughly equivalent to that of a 1-wing base for a period of 2½ years. The total number of B–47 part numbers applicable to aircraft on base was approximately 15,000. About 25 percent of the parts were not demanded at all in the period. An additional 20 percent of the parts had a demand of only 1 unit during the period, and another 10 percent had a demand of only 2 units. Most of the rest of the parts had demands during the period ranging from 3 to 35 units.

We have no single formula that could be usefully employed across the board to estimate the rate at which demands for certain parts will occur. The fact remains that demand for most s are parts cannot now be predicted with confidence, and perhaps never can. The logical solution we are pursuing is a reasonable range of items and a high degree of responsiveness in our supply distribution system to make it easier to li e with demand uncertainty.

Substantive measures we have taken to achieve this responsiveness are establishment of a priority system to enable depots to react based on the relative im-

portance of the customer and urgency of demand, and creation of the weapon system support concept. By employing mechanized media of communication and high speed transportation, including airlift, pipeline time is progressively reduced. Requisitions for items that have caused, or are about to cause, AOCP–ANFE are accorded fastest methods of transmission and transportation. Implementation of the weapon system concept vests within a single Air Force control point the authority and responsibility for complete supply support of an air vehicle. In this manner all aspects involved in the support of a particular air vehicle are afforded special and concentrated attention.

Mr. SCRIVNER. This Committee has in time past criticized the Air Force for the large numer of items carried in inventory that were used so seldom. Perhaps some of our criticism has brought about what you are discussing now. We found a lot of items on the base never used at all, never called for. We thought they were carrying too many.

Mr. MAHON. This is obviously a difficult management problem but it seems obvious you have not quite hit upon the proper solution to it.

Mr. SCRIVNER. Never will.

WEAK AREAS IN NAVY AVIATION SUPPLY

Mr. MAHON. The Aviation Supply Office, Philadelphia, is under the dual control of the Bureau of Aeronautics and Bureau of Supplies and Accounts. The lack of clear management responsibility is reported by the staff to contribute to some of the weak areas noted in aviation supply. Areas include, of course, No. 1, inventories are too high and move too slowly; No. 2, insufficient screening to eliminate excess stock; No. 3, excessive intrasystem transfers of property; and No. 4, reparables constitute too large a proportion of the total inventory.

What does the Navy have to say to that criticism?

Mr. BANTZ. We have had a lot of trouble with aviation supply parts support. In the fall of last year we received from the carriers, from the fleet, a number of complaints. As a result of that, we convened a committee who made a very thorough analysis of the whole supply support methods. They submitted their report some 6 weeks ago. It was a very exhaustive report and highly critical in some areas of the method of operation.

As a result of that, we have several things now under consideration. Admiral Dixon has recently ordered an inventory of all supply parts. There will be many other things done. Our big problem, I am sure the same as the Air Force's problem, provisioning planes, particularly new planes, on which you have no real experience as to which parts will give out and which you will have to replace earliest. The committee found out that with planes in operation a number of years, there is no particular problem. It is the new planes that have not been tried and proven in actual experience where we have the supply part problem.

Mr. MAHON. On that dual management criticism, it seems to be meritorious.

Mr. BANTZ. Part of it I think is justified and as a result of what we are doing right now I think we will straighten it out. We just completed this about 6 weeks ago, the report, and it is too early for us to say just what we will do but I can assure you something will be done about it.

Mr. WHITTEN. Will you yield to me?
Mr. MAHON. Yes.

LITTLE MONETARY PRESSURE TO RESTRAIN OVERSUPPLY OF PARTS

Mr. WHITTEN. As I understand the staff report, the answer to the earlier question was that you had an oversupply. Your statement was you did not know what to do about these new planes. I do not take it the investigators report with reference to your oversupply of spare parts has to do with older planes.

Mr. BANTZ. There is no question we have an oversupply of certain items. That is the reason for the inventory.

Mr. WHITTEN. Everybody does not agree with me. I give you gentlemen credit for wanting to improve this as much as Members of Congress. As long as money is easy to come by to buy new parts or get anything new, as long as there is a loose checkrein on the funds available you have lost your chief means by which to bring these things into line.

Mr. BANTZ. No, sir; I could not agree with that. I think it is entirely the result of our judgment in provisioning for planes.

Mr. WHITTEN. My point is that as long as a particular base has relatively little trouble getting additional funds for most anything in sight, you have little squeeze to require that first things be put first and keeping inventories in line with what is needed. I think anybody will agree with that statement as a matter of general principle.

Mr. BANTZ. As I understand your statement, you are applying that to specific bases, not to supply system in general, is that right?

Mr. WHITTEN. No, the supply system in general. Congress has given you money to the point many times that it was more than the services wanted. That of itself is conducive to lax management of inventory investment. It is true in any business, any private operation. It is also proved in the procurement investigation of this committee.

Admiral ARNOLD. I would agree with you, sir, an excessive amount of money does essentially lead to——

Mr. WHITTEN. Less pressure to clean house.

Admiral ARNOLD. Less pressure to economize. We have not had that experience in the last few years, sir.

Mr. WHITTEN. That is a matter of judgment, too.

Admiral ARNOLD. Yes, it is.

Mr. SHARP. Could I comment?

Mr. WHITTEN. If we had 3 or 4 hours we could argue that one and I would be willing to take my side of it.

Mr. SHARP. We are attempting to develop a philosophy throughout the Air Force which will create an incentive to people to do a better job in the area you talk of.

Mr. WHITTEN. It is a big thing. I give you credit for trying.

Mr. SHARP. We are trying to create the feeling that the purpose of the Air Force is to have fighting equipment and fighting people in place, particularly fighting equipment, since this comes out of the same general type of funds and that any money they can save in spare parts gives them more funds either this year or next year to put into fighting equipment. This is the incentive in the Air Force not to save money. Maybe a lot of people do not care about saving money

as such but they care about putting money to something they can fight with.

Mr. WHITTEN. In recent weeks both administration and Democratic leaders in my personal judgment seem to say that the more we spend the more prosperous we are. That makes it hard to do any good toward holding down expenditures.

Mr. MCGUIRE. I wonder if I might say one thing on this matter. We are dealing with something that even in industry in the large merchandising operations is not purely scientific. My experience in the retail business indicates your stocks are never right even on such things as men's shirts.

Mr. WHITTEN. We accept that.

Mr. MCGUIRE. As to the philosophy you state that if you had unlimited funds available you will be wasteful I could not agree more. However, I was interested in hearing these gentlemen, none has said what they say to me daily over there, and that is they have to justify these things. Even when you appropriate the funds here I do not think this is a blank check that they go spend it. I think Mr. McNeil does an excellent job and the services do themselves. What you say possibly could be true in some instances.

Mr. WHITTEN. I say a tight rein. I realize it is a matter of judgment what is tight, what is too tight, or too loose.

Mr. MCGUIRE. There is an awful lot of work being done in the Services themselves and in the Department of Defense working with them to see to it that the funds you give us are not wasted. We get evidence of waste but we also do not put as much emphasis on the good things that come out. I am sure you recognize that, too.

Mr. WHITTEN. I came on this committee insisting on this annual investigation by this committee. I am sure everybody agrees it should be done. May I say it has always been my opinion that the chief value of this investigation by the staff of this committee is that the very fact it is being done will bring to your attention some information that otherwise might not be available which will strengthen the hands of those at the top level in their dealing with the field. After all is said and done, the real benefits and savings will be what this enables you to do, not what we can do here.

Mr. MCGUIRE. Correct.

NAVY'S REDUCTION OF EXCESS STOCKS

Mr. MAHON. Identified excess property in Navy supply system was reported as $1,846 million, 12.8 percent of the total inventory. The staff found that normal stock level reviews, screening, and physical inventory processes have been de-emphasized in the last 2 or 3 years. These, of course, contribute to the accumulation of excesses. The report called 15 aircraft parts that are in long supply.

Is the Navy taking any special action to reduce the excess stocks noted?

Mr. BANTZ. In regard to the examples of overstocking of ASO items, as cited by the staff, it is presumed that they were obtained during a visit to NAS North Island, San Diego. A staff representative visited ASO in November 1957, with several items that appeared excess to the system; however, a copy of the list was not provided ASO, precluding specific item identity and research at this time. For

the specific items identified in the report, action has been taken as follows:

Item 9: Awaiting disposal action from BUAER.

Item 10: Disposal has been effected.

Item 14: Disposal has been effected.

Recollection at this time for the remaining items indicate the following:

Three items were on a list of electronic components ASO had previously submitted to BUAER indicating the quantities ASO intended to dispose.

One item of ARC–1 transmitters. ASO had specific instructions dated March 29, 1956, from BUAER to salvage and retain all ARC–1 components. Inquiry by ASO to BUAER on December 24, 1957, regarding continual salvage and retention received reply January 6, 1958, that no more ARC–1 should be salvaged and information regarding disposal of present stocks would follow.

Balance of times questioned were reviewed and were disposed of where indicated. ASO's item by item disposal review during fiscal 1958 would have picked up these items and eliminated them. To date disposal action has been initiated on $639 million in APA inventories and $233 million in NSA inventories.

PROXIMITY AT NAVY STORAGE AND REPAIR OPERATIONS

Mr. MAHON. The staff reported that several Navy aircraft overhaul and repair facilities were located long distances from the principal stockage point for the parts used in the overhaul and repairs. This creates extra handling costs and impairs the efficiency of operations.

Is the Navy reviewing this area so that storage and repair operations can be brought together whenever possible?

Mr. BANTZ. It is apparent that the staff misconstrued distribution control to mean actual physical custody of material to support the R6D and PBM aircraft. NAS Alameda is the "West of the Mississippi" specialized control point for R6D material along with all parts to support the several Douglas plane types. Material for the R6D overhaul program is not shipped from the manufacturer—Douglas—to NAS Alameda to NAS Corpus Christi, but is shipped direct from Douglas to Corpus Christi.

UNSATISFACTORY CONDITION OF NAVY INVENTORIES

Mr. MAHON. The staff reported inventories in class A naval air stations amounted to $2 billion as of June 30, 1957. However, $588 million of this, 28 percent, is in need of inspection or repair before it can be issued. Of 8,900 aircraft engines in the inventory 5,000, or 56 percent, were reparables and not in a ready for issuance condition. This is indicative of several things. Much material was overprocured. Excess stocks are not purged from the supply system and unnecessary expense continued. Repair schedules are not coordinated or satisfactory. What steps is the Navy taking to eliminate the obvious deficiencies disclosed by the tremendous build-up of reparables in its inventory?

Admiral DIXON. We have just ordered in the last 3 weeks a complete inventory at all of our major air stations and at many of our smaller air stations as well. We have given this a high priority and we expect to complete the inventory in about 12 months. Our instructions to the stations were to make a wall-to-wall inventory, and to determine what is on hand and in what condition. We hope to have an improvement in this situation very shortly.

I should like to add, however, Mr. Chairman, that we will always have excesses. Otherwise our aircraft could not fly. When a plane comes to the end of its service life, we are going to have many engines excess to our requirements at that time because we buy spares to support the maximum number of squadrons of the particular aircraft model, before attrition whittles down the number of aircraft. It may be 3 or 4 years after the inception of the aircraft into fleet units. As the aircraft attrite, only the installed engine is lost. Spare engines once required to support the attrited aircraft, remain on hand and in time become excess.

Mr. ANDREWS. Do you not buy your spares at the same time you buy your new planes?

Admiral DIXON. We do, sir, but we also try to buy them as late as possible, as the Air Force indicated, so that we will buy correctly.

EXCESS ENGINES INEVITABLE

Mr. WHITTEN. May I interject there, Mr. Chairman? With the experience you have had in these fields, do you not think where you say you buy spare engines at the outset to the absolute maximum that the plane might be in use, yet your experience has shown few if any planes ever serve to the point of absolute maximum leaving you these engines. Do you not think it is a matter of balancing your spare engines with the known usual rate in the service?

Admiral DIXON. If that is intended to indicate incorrect buying I cannot agree.

Mr. WHITTEN. As I understood you, you said when you acquired so many planes you provided spare engines sufficient to meet the greatest ultimate possible use of the supply of planes. Your experience shows the total number of planes never do live up to their total maximum use.

Admiral DIXON. No sir.

Mr. WHITTEN. That being true, you should balance your spare engines to the probable rate at which these planes will stay in service.

Admiral DIXON. I did not say that, sir.

Mr. WHITTEN. I understood you to say that.

Admiral DIXON. I said we bought the engines for the maximum utilization of the aircraft. In other words, if you do not have sufficient spares based on aircraft flying hours' time between overhauls, and the time required in overhauls you cannot keep planes in the air during their maximum effectiveness.

Mr. WHITTEN. You used the word "utilization" that I happened to miss.

If you hit it on the nose on utilization and hit it on the nose about engines, it would work out. I realize you cannot do that exactly. But in theory if you had them together you would. Do you always end up with spare engines?

Admiral DIXON. Yes, sir.

Mr. WHITTEN. In sizable or limited numbers?

Admiral DIXON. I would say sizable quantities.

Mr. MAHON. Will you please clarify that matter. You have not done so. Please take the time to clarify your position, whatever it is.

Admiral DIXON. Mr. Chairman, our engines are reparable; they don't wear out. When an airplane is phasing out of the program, we do not keep all the engines that are in stock repaired because our demands on those engines are lessened with the lessened remaining inventory of aircraft. We are displacing these older aircraft each year as our newer, high-performance models become available. At that point we no longer overhaul the engines once required to support the aircraft now being phased out of operation. Our figures agree with the staff's except I believe the staff's figure was 55 percent reparable. We say 40 percent. Other than that we think the staff is right.

Mr. MAHON. Would it not be unwise to estimate in your procurement policy that every plane will be utilized to the maximum when you know in advance that every plane will not be utilized to the maximum? That is the question I thought Mr. Whitten was trying to get you to respond to and I do not think you responded to it.

Admiral DIXON. When we say to the maximum we mean to the utilization or the flying hours predicted by the Chief of Naval Operations and for the period when we have the maximum number of aircraft models in our fleet squadrons. Then we must take into account the life of the engine. When we buy a new engine with a short life, we have to buy more engines early. As the engine progresses, the hours between overhaul may go up 300 to 400 percent of that experienced when the engine model initially came into service use.

Mr. WHITTEN. One thing I believe you left out is the known rate of obsolescence. We have all been here long enough to know that few planes if any that with time do not get phased out and others come in. That is another factor that certainly should be counted in the original purchase of spare engines for a plane. You have not mentioned that.

Admiral DIXON. We take that into account.

Mr. WHITTEN. When you get through you end up with a lot of new engines to the point that you do not repair the engines you have that are reparable.

Admiral DIXON. Yes, sir; but these are used engines, not new engines.

Mr. WHITTEN. You have about 40 percent, you say and they say 50 percent of reparable engines on hand and apparently you have not repaired them for the reason that you had new engines on hand and did not need to repair them.

Admiral DIXON. Not entirely, sir.

Mr. WHITTEN. To a large extent.

Admiral DIXON. These are the engines in storage, you might say, awaiting issue as reparable equipment.

Mr. WHITTEN. But your supply of engines for the planes is sufficient that you do not feel any necessity to repair these engines.

Admiral DIXON. That is correct, sir.

Mr. WHITTEN. It means in your acquisition you have acquired spare engines to the point that you end up with 40 to 50 percent of the engines that could be repaired that you do not need to repair.

Admiral DIXON. We will always end up with excess engines.

(The following additional information was furnished subsequently for the record.)

ADDITIONAL EXPLANATORY MATERIAL PROVIDED BY THE BUREAU OF AERONAUTICS ON THE NAVY'S ENGINE SPARES INVENTORY

The total Navy inventory of spare engines is in phase with the Navy's inventory of aircraft. Thus there are spare engines available to support active aircraft and there are additional engines, in the older model series, held to support aircraft retained in the contingency reserve. These latter aircraft and the engines for their support are no longer required for Navy operations but would be useful under mobilization conditions or in military-aid programs and are not considered as disposable equipment. Both these aircraft and their supporting engines have been used and reused during their naval service and are reparable now but generally will not be again repaired until a specific requirement develops for their use.

Although the ratio of reparable engines on hand on June 30, 1957, to total non-installed engines was 56 percent, as reported by the staff, a more meaningful statement of the inventory position would be one eliminating those engines held as a reserve against nonactive aircraft in contingency status. On this basis the reparable engine inventory closely approximates the planned 43 percent (rounded off by Admiral Dixon in his testimony to 40 percent) of total spares inventory.

The Navy procures spare engines on the basis of detailed actuarial formulas which average overall to approximately a 7-month pipeline. Of this 7-month pipeline, 3 are required for shipment to overhaul and the overhaul processing and testing time. During the remaining 4 months the spare engine is in repaired (ready-for-issue) status. Part of the 4 months in ready-for-issue status represents transit time from point of overhaul to a command readiness pool, but for at least 3 of the 4 months the overhauled engine provides operational backup support, perhaps on board a carrier in the Mediterranean or perhaps on some remote island in the Western Pacific. With a 7-month pipeline, 3 of which represent shipping to the overhaul facility and time in overhaul and testing, the percentage of reparable spare engines to total spares should be three-sevenths or 43 percent.

The detailed formulas used in computing spare engine requirements correlate the many variables that affect the level of support required for the different aircraft models. Application of this formula involves predicting the service history of each aircraft model and converting this service history into engines required in the supporting pipeline. The series of steps performed in order to arrive at the required number of engine spares for a particular aircraft model are somewhat long and involved but they consist essentially of the following:

First.—Development of an extended aircraft operating program, taking into account aircraft delivery rates, the aircraft operating tour, attrition, operational pools, time required in overhaul, and the number of operating tours;

Second.—Conversion of the aircraft operating program into requirements for engine changes, by a formula combining the following factors: (*a*) the number of installed engines in each plane, (*b*) the aircraft attrition rate, (*c*) monthly hours of operation, and (*d*) average engine hours between overhaul; and

Finally.—Computation of the number of spare engines required, by applying the number of months of engine pipeline (that is, lag time) to the number of engine changes and subtracting that result from the number of engine changes.

It is during the second of these steps that the mathematical formula converting aircraft operations into engine changes is applied. The purpose of this formula is to produce a percentage factor (*a*) that provides for the elimination of those operating hours accumulated on engines lost on attrited aircraft and (*b*) that when multiplied by the number of operating aircraft will produce the number of engine changes required.

Following is the precise formula employed in converting from numbers of operating aircraft to numbers of engine changes required:

$$R = e\left[\frac{a(1-a)^{b/f}}{1-(1-a)^{b/f}}\right]$$

in which

e—number of installed engines in each plane
a—monthly aircraft attrition rate
b—average engine hours between overhaul
f—monthly hours of operation

The number of engine changes required is determined for each month in the life span of the aircraft model by multiplying monthly figures for operating aircraft by the formula percentage previously determined, thus:

$$\begin{pmatrix}\text{Average number of aircraft}\\ \text{operating during month}\end{pmatrix} \times \begin{pmatrix}\text{R, as determined}\\ \text{above}\end{pmatrix} = \begin{pmatrix}\text{Engine changes}\\ \text{required}\end{pmatrix}$$

These required engine changes then must be translated into spare engines required. This is done by measuring the number of months necessary to ship the replaced engine to its overhaul point, to overhaul it, and then to return it to an operating squadron, for there must be a sufficient number of spare engines to replace the engines requiring overhaul while they are in the overhaul cycle.

Up to this point, no allowance has been made for readiness. Military operations cannot be programed realistically on the concept of having an engine reach the Philippines, for example, at the precise instant a plane operating from the Philippines develops engine trouble and requires an engine change. Therefore various operational pools are established throughout the operating fleet commands and these pools or allowances account for most of the ready-for-issue engines held in Navy inventory.

Mr. WHITTEN. I know also you correct your policy. What can we do to correct it?

General DAU. One of the keys is an engine does not wear out. If you get down where your last airplane is out of inventory you still have those spare engines. They do not wear out.

Mr. WHITTEN. It does look like here buying new engines at the time you buy the plane we buy them to the point that when the plane is finally phased out we have a lot of engines that could have been repaired but instead of repairing them we have enough engines that we do not bother with it and I think it results in considerable waste.

General DAU. I think you are challenging the method of computing spare engines.

Mr. WHITTEN. I hope I made that clear.

General DAU. It is a complex, very detailed computation. I am sure it is approximately the same in the Navy as the Air Force.

Mr. WHITTEN. Yes, and it has an end result if you read the investigator's report that looks like it might be improved on. I grant you it is complex.

General DAU. The 60 percent would be 100 percent when we get to the tail end of the aircraft program.

Mr. WHITTEN. That is right, but you anticipate sooner or later you get to the tail end.

General DAU. Yes.

Mr. WHITTEN. You have had enough experience to have a rough estimate as to how long that would be.

INEVITABILITY OF EVENTUAL EXCESS IN SPARE ENGINES BECAUSE ENGINES DO NOT WEAR OUT

General DAU. If we had 100 aircraft in the inventory at the peak of its inventory, say it lasted a year, we were supposed to be able to fight a war during that period, and we had so many spare engines. As those aircraft attrite over a period of subsequent years those spare engines do not attrite. We cannot eat them. They are still there. We phase them out. We do not overhaul more than we need because that would be a waste of overhaul cost.

Mr. WHITTEN. You mean you have now then in addition to your aircraft that you have procured new engines at the outset when you

procure the aircraft to be ready at all times to fight a war and that is the reason this dislocation occurs; is that right?

General DAU. One slight correction. All of this is phased. The aircraft inventory builds up and the people who figure those actual inventories over a span of years figure attrition of the aircraft themselves so that we know at any point of time how many aircraft we are expected to have. We also know how much they are supposed to fly in peace and what they are supposed to be prepared to fight in war. Those again are figures that vary over time. From that, knowing the projected life expectancy of the engine, which in turn varies over time, we mesh all those together to decide at any point in time just how many spare engines we require.

Mr. WHITTEN. Your answers are a bit complex, too. Let us get back to this. If these 40 or 50 percent of engines had been repaired and kept in use, to that extent you would not have needed some new engines.

General DAU. That is incorrect, sir.

Mr. WHITTEN. If at the end of this period where your planes have gone down in number to the point that you do not need to repair these engines, if earlier these engines had been repaired and used instead of just sitting aside to a degree, you would not have needed the new engines you put in the planes.

General DAU. No, sir. We have an example. The B–36 is phasing out of the Air Force inventory. When the B–36 was the primary weapon of the Air Force we needed so many spare engines to support the war plan and maintain the peacetime training posture. A couple of years ago we started phasing the inventory down. Now, during this period, it has been a very difficult and meticulous operation to decide just how many R–43–60 engines to repair to keep supporting the remaining B–36 fleet. We have to so arrange we will have a few serviceable repaired engines when the last one goes out but we try to get it exactly right. The ones we do not repair we have saved the cost of repair and beside that we cannibalize them for spare parts to be used in the overhaul of the ones we have to overhaul. I think it is a meticulous management job as an aircraft phases out so you do not repair more than is necessary. There is no way to reduce the number of engines required when you have the full B–36 fleet.

Mr. WHITTEN. I agree that it is a judgment proposition and it is a meticulous decision and everything you say, but if this 40 percent of these engines that had been reparable were in the planes instead of the engines that are, you would have engines that you now have in there that would not be in the planes, would you not? I am talking about this. Have you put new engines in planes when you had reparable engines that might have been put in?

General DAU. Neither the Navy nor ourselves, buy engines for that service. If we have serviceable engines, new or otherwise, we put them in rather than repairing them, if we can still maintain the stocks.

Mr. WHITTEN. The whole question is in the original purchase. Did you buy new engines to the point not necessary if you give proper attention to repairing the percentage of engines that are reparable? That is the question. The question is whether you buy more new engines to start with than you require based on your experience as to obsolescence and other things that have to do with aircraft.

General DAU. The best judgment of all concerned—planners, technicians, and everything else—goes into this projection of how much we need. These are time-phased so that we do have precisely the number we need to support the fleet. What the Admiral was referring to is this. Once the peak of this program has passed we no longer need that same number but we definitely needed them when we had the full fleet. Once it is past we do not want to overhaul more than we need.

Mr. WHITTEN. I agree.

Mr. SHARP. I think the present situation is: Do we have to buy enough engines to be able to fight the war with the full fleet?

Mr. WHITTEN. That was the question I asked earlier.

Mr. SHARP. If you do not fight the war you have bought too many engines. So that eventually when this particular airplane goes out and a new one comes in with a different engine you are bound to have that insurance quantity of engines you bought to fight the war with on your hands and there is no way to avoid it if you are ready to fight the war.

Mr. WHITTEN. That question was asked earlier. We could have saved time if it had been answered.

SPARE ENGINES CONSIDERED ESSENTIAL PART OF EVERY PLANE

Mr. ANDREWS. Admiral, as a matter of fact, that spare engine is part of that new plane, is it not, when you buy it?

Admiral DIXON. Yes, sir, it is procured on the same contracts.

Mr. ANDREWS. In order to have a new plane operational and ready in case of an emergency you need those spare parts to go with that plane?

Admiral DIXON. Definitely.

Mr. ANDREWS. I have always thought that should be considered as part of the cost of that plane put in service.

Admiral DIXON. That is the way it is submitted to you, sir.

OVERHAUL EXPECTANCY FACTOR AS ELEMENT IN DETERMINING SPARE ENGINE REQUIREMENTS

Mr. SCRIVNER. Mr. Chairman, that matter of spare parts, I do not know how long the Admiral has been listening to it, but General Dau, as I remarked, has not always been a General and he has been in on this problem a long time. We have found that ever since we have had an Air Force we have had just exactly the same kind of trouble of the excessive spare parts and the excessive number of engines.

There have been many changes made in the spare part procurement program, but having watched it now for several years, it would appear that in many instances while we do have the element that has been pointed out of needing all of these things if an emergency broke out today, there has been, as I have observed it over a period of years, a little too much caution in that portion of insurance where we have become over insured in that too often in the new planes with the new engines there have been too many of them procured early in the game instead of waiting until a little later in the line of procurement after the engines have been tested to procure your spares. In

almost every instance—this will hold true for the Navy as well as the Air Force—where that has been done and our experience has shown there has always been, with the exception of 1 or 2 engines, an underestimate of the flying hours between overhauls. I can go back early in the history of our jets and show where the Air Force anticipated 75 hours they got from 150 to 250 and it finally went up to 600. There was a fourfold overestimate so that they had too many engines and we just recently had to dispose of about $60 million worth of them because the life estimate was too conservative.

If the procurement of the new type of engines when they first come out in your plane were delayed until those engines had really been worked over a little out in the field to see what the life is going to be, perhaps there could be a considerable savings. I do not know whether that is exactly what has been in the King report or not, but if it is not, that was the ultimate conclusion all the other studies they made have led up to. I would like to have General Dau's observation on it because he was in it about the time we had some of this early difficulty.

General DAU. The facet of the engine computation you refer to, sir, is the estimation of engine life. The outstanding example to which I believe you referred was the J–47–25 which was to be used in the B–47 and in which astounding progress was made in extending that life. The record pretty clearly shows we bought on too small a time between overhaul factor.

On the other hand, there are many examples of engines that do not meet the engine life expectancy that we project even among the J–47's. The J–47–17 is one of that nature.

Mr. MAHON. Amplify that for the record.

(The information referred to follows:)

LIFE EXPECTANCY FACTORS USED IN PROJECTING AIRCRAFT SPARE ENGINE REQUIREMENTS

Although the J–47–23/25 engine in the B–47 has been cited historically as an example of the excesses that resulted from conservative engine life expectancy (ELE) estimates, there are examples where a reverse situation has been encountered with other engines. At the time the last procurement commitment was made in March 1955, the projected ELE for the J–47–GE–17 in the F–86–D was 225 hours. Actual experience at the time was 227 hours. Immediately subsequent to this period, the actual life experience, measured by actuarial techniques, remained less than the projected ELE. Actually the record indicated that through the remaining delivery period of the J–47–17/33 engine the following was experienced:

Date	Projected	Actual
May 1955	225	222
August 1955	225	209
October 1955	225	211

Subsequent to the third quarter fiscal year 1956 there has been a gradual improvement and actual life being experienced as of January 1958 exceeds the projected. This improvement is primarily attributed to the extended field repair.

The experience gained on the J–47–GE–17/33 engines was used to forecast the projected life expectancy for the J–57 engine used in equipping fighter aircraft. Actual experience on these J–57 engines is very comparable to the projected. The F–101 with the J–57–P–7/39 has a projected ELE of 225, actual 221; the F–100 with the J–57–P–13 has a projected ELE of 300, actual 234; the F–102 with J–57–P–23 has a projected ELE of 250, actual 261.

The J–73–GE–3 in the F–86H has a considerable history where the life projected has never been experienced. Records reveal the following:

Date	Projected	Actual	Date	Projected	Actual
August 1955	180	159	October 1956	230	183
November 1955	190	173	December 1956	230	171
February 1956	210	206	February 1967	235	165
May 1956	215	213	April 1957	240	161
August 1956	225	206	August 1957	250	161

Since the last engine of this configuration was delivered in December 1955, the deficiency in life expectancy created a critical support condition and necessitated incorporation of Overhaul Change No. 60. As data were gathered to study the effect of this overhaul change, they revealed that actual experience had finally become comparable to projected life. In January 1958, the improved J–73–GE–3 engines were experiencing 261 hours versus a projection of 250.

Initial ELE factors for new engines are based upon an engineering comparison of the new engine with an engine for which an ELE has been established. Important elements considered are design of the engine for field maintenance, material used in its construction, mission of the using aircraft, and time phased important events, such as completion of acceptance test, first flight, first production delivery, and so forth. In this connection, the trends of life portrayed in the past for comparable engine installations, are used as a point of reference in making ELE projections for the new engine and are adjusted as necessary to reflect obvious differences in engine design or installation. As life is improved on the basic engine due to changes in maintenance practices and the incorporation of improved engineering, it is reflected in the projected life expectancies of the new engine under consideration.

Spare engine requirements are subjected to continuing surveillance by the USAF. They are recomputed each time there is a significant change in engine life expectancy or any other pertinent factors such as flying hour programs, war planning data, pipeline times, and so forth. Necessary procurement program adjustments are made as long as the engine is in production.

SPARE ENGINES FOR B–36's

Mr. SCRIVNER. It is a difficult problem and always will be. To carry this a step further, you mentioned the phasing out of the B–36's and the fact that as these planes were attrited you would have these engines left over to be used for cannibalization or whatever is necessary.

As a matter of information, when was the last new, brand new, R–43–60—is that not used on the B–36?

General DAU. Yes; that is the main engine.

Mr. SCRIVNER. When was the last brand new 43–60 procured?

General DAU. I would have to provide that for the record.

Mr. SCRIVNER. It would be interesting to know. I mean as a spare. The last B–36 came off the line in Fort Worth 3 or 4 years ago.

General DAU. 1956, I believe.

Mr. SCRIVNER. Four years ago, I think August of 1954.

Mr. MAHON. Supply the information for the record.

(The information referred to follows:)

Deliveries of B–36 aircraft from production were completed in August 1954. The final procurement of R–43–60 spare engines for this aircraft was placed in October 1952. The last R–43–60–53 spare engine for the B–36 was delivered to the Air Force in April 1954.

EXCESS PROPERTY IN SUPPLY SYSTEM

Mr. MAHON. The staff reported that the excess inventory now being carried in the supply systems of the three services is probably

the major deterrent to a completely efficient logistic operation. Identified excess in the Army was $3.7 billion—18 percent of the total inventory. According to Army records it increased 400 percent in 3 years. It has been estimated that another $2.5 billion of excess stocks is in the unserviceable and economic and contingency retention categories. Complaints were received that retention of obsolete and excess materials were bogging down the supply operations. A vast amount of Army material that would otherwise be disposed of is being held for MAP, so much of it that the staff reports most of it will eventually be disposed of as surplus. In the meantime the retention of this material is causing needless expenditures of funds.

The staff was informed of any Army plan called elimex designed to "bring about a reduction or elimination of unserviceable and excess material."

1. Has ELIMEX been implemented? What is its status?

2. What is being done to dispose of the MAP material for which there is no known requirement?

Mr. HIGGINS. Colonel Watson will answer.

Colonel WATSON. Mr. Chairman, Operation ELIMEX was implemented, worldwide by Department of Army letter, on January 10, 1958. Subprograms contained within the operation were progressively implemented during the period August 1957 to January 10, 1958.

As to the current status, the first phases of this operation involve the redetermination of total Army mobilization and peacetime force requirements based upon the latest DOD and JCS criteria and operations plans. At the same time the total military aid program requirements, to fill gross deficiencies of end items and their supporting repair parts through fiscal year 1962, are being computed. Items determined excess to the needs of the Department of Defense but required under the military aid program, pursuant to the requirements studies enumerated above, are to be transferred to MAP claimant stocks following the approval of the Assistant Secretary of Defense (International Security Affairs (ASD) (ISA)). These stocks are to be identified as MAP claimant stocks, held in Army depots at military aid expense (storage costs), and applied against future years approved MAP program requirements. The Army chiefs of technical services are presently engaged in the studies described above, with a target date of June 30, 1958, to determine the total MAP future years requirements. As commodity groups are completed, the recommended MAP retention lists are being forwarded to the ASD (ISA) for approval. The first of these lists has recently been forwarded to the Secretary. The operation is considered by the DA to be on schedule.

Following the determination of total requirements, subsequent phases of the operation involve the physical elimination, from the supply system, of the surplus and foreign excess materiel revealed as a result of the foregoing actions.

With reference to the second question, the retention of DOD approved excess material to meet military aid program future years requirements, through fiscal year 1962, represents the final claim that will be made against these stocks, unless a new demand arises prior to physical disposal. Under the provisions of ELIMEX all surplus and foreign excess revealed pursuant to the operation is processed for disposal in accordance with public law. This includes the stocks

formerly held for MAP for which no requirement is established. Stocks for which no requirement is established will be transferred as surplus or foreign excess to property-disposal officers, of the surplus and foreign excess revealed under the operation, is June 30, 1959.

REQUIREMENTS COMPUTATIONS BASED ON UNRELIABLE DATA

Mr. MAHON. The staff review of the Army supply control studies disclosed that they do not contain data as reliable as that necessary for accurate computations. I will mention only a few of the deficiencies noted. The asset data is usually untimely and frequently inaccurate. Replacement rates used in many cases were unrealistic and grossly overstated in relation to reported experience data. The forms used have too much detail and need simplification to keep up with constantly changing work plans and requirements.

What is the Army doing to improve the accuracy of requirements computations?

Mr. HIGGINS. Colonel Watson will answer that.

Colonel WATSON. Mr. Chairman, the Army places a considerable amount of emphasis on the computations of materiel requirements. Our methods, our policies, and our procedures for computations are under continuous study, and we feel that we have made great improvements in this field over the past few years. Not only do we in the Army study it, but we have had civilian firms such as Harbridge House and Melpar under contract to study specific portions of the problem. The Operations Research Office is under contract at this time.

The primary basis for most materiel actions is the relationship of requirements to assets. The validity of our asset data is, therefore, of great concern to us, and we realize that inaccuracies exist in that data. We have taken, and we are taking, strong action in this field. We have made asset reporting a responsibility of command; we have also made asset reporting a matter for attention by the Inspector General; and we have organized a group within the Department of the Army to study the problem and determine where further improvements can be made.

The review and revision, as necessary, of our replacement factors is a matter of standard operating procedure. It is true that replacement factors in some cases will appear unrealistic in the light of past experience; this, however, is based on the fact that methods of employment are changing, maintenance concepts are changing, and items themselves are being vastly modified, altered, and frequently made more complex. Replacement factors must therefore be based not only on past consumption but on considered evaluation of these other elements. We do recognize the problem and we are attempting to solve it. Every replacement factor for major items is reviewed in detail at least once a year.

Our reporting format was changed last year. There is a considerable amount of detail contained in the form; however, this degree of detail is necessary for supply control. These basic computations are the basis for determining procurement, for scheduling rebuild, for programing disposal actions, and for distribution; it is the heart of our materiel programing. It contains the data that we need to determine supply action; these computations are used by the Army to justify

its budget and apportionment requests. In the overall management of our supplies it is not only necessary that we properly consider the quantity of the item on hand; it is also necessary that we consider the quality or condition of the item in the inventory—its age, its state of repair, and the number of substitute items being counted against the total requirement. These are often the major contributing elements to effective management, particularly in the major item group.

ARMY SUPPLY ACTIVITIES IN THE EUROPEAN THEATER

Mr. MAHON. I should like to ask the Army a question in regard to the European theater. The staff reported a number of serious deficiencies in Army supply operations in the European theater. The supply control agencies at Maison Forte, France, have the responsibility of effecting centralized controls of the supply mission, but they have not accomplished their purpose. Ordnance depots have full staffs of stock-control personnel to maintain records at the depot although the same function was being performed at the supply control agency, but not accurately. One activity had only 50 percent of its required spare parts. It was responsible for the maintenance of 6,000 vehicles. It had a pool of 300 vehicles to replace those sent in for repair, but 241 of the 300 were deadlined for lack of parts. Stock record cards were grossly inaccurate. Warehousemen were improperly performing clerical duties. Although one commanding officer complained of the lack of warehouse space, he was not making maximum use of the space that he had. That is a rather severe indictment. Has the Army made recent review of the European supply activities and taken stepes to correct the deficiencies observed?

Mr. HIGGINS. I should like to call on Colonel Watson.

Colonel WATSON. Sir, the statement relative to the effectiveness of the supply control centers in Europe first, the supply control centers at Maison Forte were the result of the realinement of the line of communication from Germany to France. The German personnel used in Germany could not be transported to France. Therefore, we had to recruit French personnel to put into those activities. During this transition period there is necessarily an overlap of functions.

The depots initially carried their inventory-control activities. On the 8th of January all of the inventory-control functions for all of the services were centralized into supply control center and their supply-control functions at depots were discontinued. An inventory, complete inventory, was taken of the ordnance, signal, and medical warehouses in December 1957.

At the time of the survey staff report the depot initial fill on requisition for the ordnance maintenance center to which you refer was 59 percent. That is, on 59 percent of the requsitions submitted they received the supplies immediately. The fact that the ordnance maintenance center had in stock only 50 percent of the items they needed is not necessarily indicative of a major deficiency because the ordnance maintenance center is supposed to stock only fast-moving items and therefore you have to add to those available in their stocks those items which could be delivered to them from the base depots in time to continue their production as scheduled. The fact that they had on hand only 50 percent of their parts required at time of requisitioning is a minor point actually.

The centralization of supply control, completion of the inventory, and the adjustment of records, has raised the initial fill by the ordinance depots from 59 percent in August to 72 percent in November and December. We consider 85 percent initial fill on requisitions to be the maximum which an overseas depot should be stocked to provide. To supply the remaining 15 percent on demand would require that our overseas depots carry large stocks of slow moving items.

The vehicles on deadline to which you refer have been reduced from 532 to 345 at this time. That includes the 241 unserviceable portion of the 300 vehicles that are in the maintenance float. The operation of a maintenance float is such that you have to have on hand only enough serviceable vehicles to meet the daily turn-in of unserviceables. Therefore, the bulk of the maintenance float should be in unserviceables available to move through the shop on a production scheduled to maintain economical operation in the shop.

Mr. MAHON. Is the criticism made by the staff reasonably valid in your opinion?

Colonel WATSON. The criticism, yes, sir, was reasonably valid at that time.

Mr. MAHON. But the situation has now been improved.

Colonel WATSON. It has been greatly improved, sir.

Mr. MAHON. Can further improvement reasonably be anticipated?

Colonel WATSON. We expect that.

Mr. MAHON. You may amplify your answer.

(The following was furnished subsequently for the record.)

In addition to the centralization of inventory control, the complete physical inventories taken by Ordnance, Signal and Medical, the correction of stock records and the discontinuance of inventory control functions at individual depots, physical inventories of the remaining technical service depots will be completed by July 1, 1958, and stock record accounts will reflect the physical counts.

A committee of senior experienced officers has been established with the mission of devising more effective organization and simplification of systems and procedures in the supply and accounting areas. The Commodity Manager System is being installed in the Supply Control Agencies as rapidly as possible.

With regard to the warehousemen performing clerical duties at an engineer depot where the warehouseman was posting the bin count on the bin card, this practice is sometimes used where indigenous personnel perform storage functions for an accountable United States officer. The bin count permits the responsible persons to quickly spot check stock counts as a matter of surveillance where indigenous laborers have access to open bins. The engineers have been instructed to discontinue those practices not prescribed in the Joint Storage Manual unless the deviation is fully justified.

With regard to the Signal Depot Commander complaining of the lack of warehouse space while not making maximum use of the space he had, the Joint Storage Manual prescribes the width of aisles required for operation of different size forklift trucks. The Army program for standardization of materials handling equipment surveys each storage site, evaluates its requirements for mechanical equipment and standardizes on the size machines required to do the job. Where standardization is set on a single machine, that machine must be capable of handling all the work. That was the case at the storage point cited.

The provision of a smaller forklift truck would have permitted reducing the aisle widths but would have required the supply and maintenance of an additional series of materials handling equipment. This duplication of mechanical equipment would not be justified by the small amount of warehouse space gained by the difference in aisle space required for operation of the smaller machines.

STUDY OF DISPOSAL OF SURPLUS

Mr. MAHON. With respect to the question of surplus, Mr. McGuire, we recall that in your statement you said a Department of Defense

team is presently reviewing our disposal program with a view to correcting some of the deficiencies found. Just when do you expect this study will be complete and how soon will the improvements be accomplished?

Mr. McGuire. Well, as to the study itself, we expect this study to be finished in the next 30 days. I do not mean to imply that the study will solve all the problems, but it is pinpointing some of them and making some suggestions on them which I think will be very helpful.

I think that we have made some very substantial improvements already in this field. I think that I mentioned in my initial statement we have retained a man who has been in merchandising to give us some assistance in this area.

This is fundamentally a selling business. I am now speaking of the disposal.

On the other side of the coin is the facing up to an evaluation of what we own and that we do not hoard things unnecessarily. We have made some substantial steps in this area.

FACTORS CONTRIBUTING TO EXISTENCE OF DISPOSAL PROBLEM

Now, I would like to take the time of the committee, if I could, to go into something that I think is highly important to the committee and to all of us. Where does this disposal come from and what is it all about? I talked briefly yesterday to the point that I think we have been wrong in our past practice where we have percentaged income on disposal.

Mr. Mahon. You made that clear yesterday. You may amplify it for the record if you wish. I do not think we are under any misapprehension in regard to that.

Mr. McGuire. We would like to make it very clear that this disposal problem comes from a faulty requirements determination. That is one part of it. We have to admit that.

It comes from poor programing. It comes from program changes that you could not anticipate. That does not condemn the initial planning. We must be agile enough to change our situation to meet this thing as we see it.

It comes from poor supply management and it comes from the lack of interservice utilization of assets. It is a combination of all of these things.

I think these figures that I had the boys develop for me might be of some help to the committee in understanding this problem. We think that all of these factors contribute to the overall problem. However, we also think that some of these factors are secondary rather than primary in determining the value of the material which is excess in the Department of Defense. There are other reasons which are more important in determining the total magnitude of the surplus problem.

First, it must be remembered that the reported value of the program is done in terms of acquisition costs, as I mentioned. Each year we dispose of this equipment that has been wornout and in my opinion we get our money's worth out of that. I want to make that very clear. But it must be gotten out of the system. This business of hanging onto things and paying expenses for the storing of them is just

nonsense. We are wasting assets when we hold onto this stuff in the hope that it will be worth something someday. There is some of that problem involved in this thing.

Mr. SCRIVNER. In other words, you ought to clean out your attic?

Mr. MCGUIRE. Yes.

Then I think we have the problem as to how we go about this, and I am prepared to insert in the record some detailed statements that will be helpful to you.

COST OF DISPOSAL VERSUS COST OF RETENTION AND STORAGE

But I would like to make one point clear here. Mr. McNeil and I have been talking a great deal about this problem, and we have at the moment a system which I think we can probably improve on if we understand what the objective is. We have a limitation on how much we can spend in disposing of surplus. It is about the $49 million we have now requested. I raised the point for your consideration. Mr. McNeil and I are not quite ready to come up with an answer on this thing, but I think we will have it probably within the next week. What it costs to dispose of this is not the real problem to the taxpayer. What it costs to keep it is the problem, and if we can get some system to get this out of our system and make it healthy and put some incentive into it it will certainly help. The $49 million is not the problem. It is what we are paying which is hidden in all the factors of counting it, polishing it, and that kind of thing, and stock cards. We must have an incentive to the services that this stuff that we are selling gets out of the system.

In my humble opinion as a businessman we would be better off—and this is somewhat contradictory to some of the policies I recognize in government—if we said to the services, "Look; go out and sell the stuff, get it out of your system." And suppose they had a windfall—and I hate to use that ugly word—of $100 million that they recovered by that action, let them put it into an account and make it go through the apportionment program so that they understand that they have to justify these items. We would be better off letting them have $100 million, if you will, that Congress did not appropriate initially for that purchase than to be paying and coming up to Congress and asking for a terrific amount of cost that cannot be identified to take care of this junk that we have in our inventory. At least, we would end up with a mix of an inventory that was the kind of an inventory, or close to the kind of an inventory we need to fight a war.

Mr. SHEPPARD. What you are saying here is, if I follow you, make this self-liquidating and get it out?

Mr. MCGUIRE. We must. When we say, "You are allowed $41 million"—and I think that was the figure last year—"to dispose of this stuff," we are saying, No. 1, this is the limit to which you can go, and nobody knows how far we could go and really face up to this problem. It is a problem in all merchandising and manufacturing.

IMPORTANCE OF DISPOSAL ACTIVITIES IN EYES OF PERSONNEL INVOLVED

Mr. MAHON. One of the deficiencies noted in the survey of the Department of the Army's disposal program was a lack of stature or

importance being given the disposal function. The program this year is estimated at $2.5 billion.

Do you think a function such as this which performs a common service for all technical services should be subservient to one of them, or do you think a better job could be done by a separate agency for this disposal function?

Colonel WATSON. Mr. Chairman, in the disposal program of the Army we handle two elements separately. One is the excess and the other is the physical disposal of property. The screening of excess property preparatory to physical disposal is often a turnaround operation. In many instances an item is fed back into our industrial operation at the technical service level. For this reason we feel the technical service must retain control of that turnaround capability, particularly at arsenals. For that reason we do not propose a separate agency to screen and dispose of all the surpluses for all of the technical services. We prefer to have that actively handled by the technical service responsible for both the operation of the installation the disposition of excess and the disposal of surplus property.

Mr. MAHON. Do you not more or less downgrade the importance of this program in the Army; in fact, in all the services?

Colonel WATSON. I do not think so. It is true it is not a combat type function. For that reason a young officer often looks at it as a little bit of downgrading if he gets into it. But we utilize skilled civilians to a very high degree. The officer personnel are trained basically because when we move into an overseas theater you cannot go out and recruit the civilian personnel to step in, particularly in the early stages of a disposal operation. Therefore, the officers have to be available to step in and organize the disposal activities and then recruit the civilians and train them to run it. We do not have too many of those officers. The total number is less than 100, most of whom are specialists in this particular area.

Mr. HIGGINS. I would like to develop that a little for the record and in so doing endorse what Secretary McGuire has just said. I think that is the answer.

(The additional statement is as follows:)

As I mentioned in my prepared statement, which I understand is to be entered into the record, the current method of funding the surplus property disposal program places an arbitrary and fixed ceiling on disposal activities which does not allow the necessary flexibility and thus adversely affects the Department of the Army's ability to effectively carry out its disposal program. Mr. McGuire has commented briefly on the causes of our surplus property problems. I would like to cite a case in point which emphasizes the need for increased flexibility. Our Operation ELIMEX, which I also mentioned in my opening remarks, is aimed at both a reexamination of our stocks held and the elimination of those stocks not needed from our inventory. Obviously, as the first objective is achieved and stocks are earmarked as not needed, our inventory awaiting disposal will grow. In order for the operation to be completed, actual disposal must follow expeditiously. Otherwise we have merely moved our stocks from one account to another and must still bear the costs of maintaining this inventory. The increased flexibility Secretary McGuire speaks of is necessary so that the sales program may respond to these fluctuations.

CONSOLIDATED BIDDING CONTROL CENTER

Mr. MAHON. The Air Force established a national bidders control center in September 1954, and it is possible to secure all announcements by writing to this center. The Army and Navy still will not use it and they list over 300 separate locations in the United States that must be contacted if one wishes to secure all bid invitations.

My question is, as an ordinary citizen desiring to receive announcements of surplus disposal sales in the United States how many letters would I have to write to the Air Force, the Navy and the Army and the Marine Corps? Why is there as yet no consolidated bidding control center where one can write and be put on all lists?

This is a technical question, but I would like to have the answer for the record. It would be helpful in several ways. Will you please supply it?

Mr. MCGUIRE. That is a part of our study, and I have asked the same question. From my point of view, I see no reason why there should not be one. I have kept close to the study that is being made in this entire area; and I have been informed that the preliminary findings and evaluations seem to indicate that a central control of bidders' lists is both feasible and desirable. However, we shall have to await the findings and recommendations of the study team, which are due around May 15, before we can take any further action in this matter. It may be that other considerations are involved which have to be taken into account either in the final decision or in the phasing of the action.

Mr. SHARP. We in the Air Force feel that we would rather welcome a central agency for this disposal. It is getting to be such a terrific problem. We would like to have an agency that could handle it and could clear up some of these matters. I am not sure that it would not be a good idea.

UNIDENTIFIED SIGNAL CORPS EQUIPMENT

Mr. MAHON. I would like to have the record clear on this point.

The staff report indicated that because of nonexistent property records it was necessary for the Army to contract with private industry to have Army research and development laboratory property with an estimated value of $150 million at Fort Monmouth, N. J., identified and cataloged. This lack of property control with the resultant generation of surplus becomes more serious because of increasing appropriation requests for research and development.

Please explain how such situations can develop and what is being done to prevent future cases of the types cited.

Colonel WATSON. Mr. Chairman, in the case of the signal laboratory of which you speak, the items are procured for research and development projects on a long-range basis. We procure them in advance of the time they will be used. That is true because many of these items are in the advance stages of the art of the industry and are not available on the open market as we require them.

There is a determination at the end of each of our projects the supplies left over are classified for return to either basic stocks or for disposal or future utilization. Those items retained for future utilization are reviewed each 6 months to justify their continued retention.

Mr. MAHON. Let me interrupt. Why do you have all of that unidentified equipment at Fort Monmouth, N. J.? Just tell me in words of one syllable. Why did you not have it identified before?

Colonel WATSON. Because, sir, they are not standard items generally.

Mr. MAHON. That is the answer.

Colonel WATSON. There is no standard classification.

Mr. MAHON. Was there any way to have done a better job, or do a better job?

Colonel WATSON. Because item accounting records do not adequately describe those nonstandard items we have a research project being handled by a civilian concern, the McLaughlin Co., who is analyzing these stocks attempting to identify them and classify them on a stock numbering basis so that through use of electrical accounting machines and a stock number system similar to Federal Stock numbers they can be quickly identified and cross-references to new projects, and those for which there are no requirements for use in research projects, identified so that they can be returned to basic stocks or disposal.

Mr. MAHON. You have vast quantities of material there. You do not even know what you have, apparently, and yet you think that you want to dispose of it. You do not know how to dispose of it because you do not have it identified, is that the problem?

Colonel WATSON. Basically the problem is that because they are new research and development items. You have a multiplicity of individual line items not related. Standard classification by specifications will permit them to be run through a machinelike process whereby they can be cataloged and either used or disposed of as I mentioned before.

COORDINATION OF DISPOSAL OF END ITEMS AND RELATED SPARES

Mr. MAHON. Things of this kind are responsible for the widely held feeling in and out of Congress by businessmen and others that we are doing a very inadequate and wasteful operation in the Department of Defense. The staff found there is little effort to coordinate the disposal of end items and related spares now being disposed of as surplus. For instance, the Army advised that by January 1958 it hoped to have disposed of all World War II vehicles. At Mannheim, Germany, there were $96 million worth of spares for such vehicles only half of which will have been declared surplus by January 1959, or 1 year after the planned disposal of the vehicles.

Now, that just seems almost incomprehensible. What can be done to coordinate the disposal of end items and related spares now being disposed of as surplus? Where does responsibility and authority lie?

Colonel WATSON. May I answer your question in two parts?

The stock of parts at the Mannheim Ordnance Depot was estimated at 116,000 tons of supplies. Purification of these stocks has resulted in reducing the stocks of World War II vehicle parts to 19,000 tons valued at $25 million. These repair parts for World War II type items have been used to supply the foreign aid program and those for which there are no requirement have been released to the property disposal as excess.

Mr. MAHON. Do you agree this criticism is valid?

Colonel WATSON. The statement is valid as stated, yes, but my point is simply this was in the process of being corrected and now has been corrected to the point stated.

Mr. MAHON. It should never have gotten into that kind of condition, should it, Colonel?

Colonel WATSON. These particular parts, sir, are the World War II type items. It is true we do not have vehicles in our system, per se, of that type, but we have supplied these vehicles to foreign aid programs. These items generally are not in production today. If we had them in stock we could continue to carry them as the most economical method of supplying the foreign aid requirements.

Mr. MAHON. So we want to use these items, particularly those in Mannheim, Germany, to supply friendly countries who do use the type of vehicles which we no longer use?

Colonel WATSON. That is right, sir.

Mr. MAHON. Will you amplify this point for the record?

Mr. HIGGINS. I should like to amplify this. I made a trip to that area in October and looked over this very thing. There was a MAP requirement problem that hitched onto this.

(The following was submitted for the record:)

The implementation of our foreign-aid programs has been on an annual basis. This precludes programing items into foreign aid except to meet approved annual programs. As time goes on some of the parts in our supply system are no longer used to support our own forces, but continue to be used by friendly countries to whom we have provided equipment through earlier foreign aid programs. Since stocks of these items are in place in depots, the cost of continuing to hold them is minor when compared to the cost of procuring new ones from industry on a special tooling basis. This is because the items generally are no longer in production.

The responsibility for promulgation of worldwide retention and disposal criteria is basically that of the Deputy Chief of Staff for Logistics. In this connection, he has initiated a very positive and definitive program for delineating what stocks will be continued in the Army supply system and has established a timetable for the purging from Army stocks those items which are not required for current peacetime requirements or mobilization reserves of the United States Forces or on which the quantities on hand exceed a very strict economic retention criteria. Those items of a type supplied to our foreign aid programs and which have heretofore been held in bulk depot accounts will now be segregated on the basis of specific items approved by OSD (ISA) for retention in Army stocks at MAP expense. This procedure will permit purification of our stocks by holding those specific items for which a requirement exists while disposing of those for which no foreseeable requirement is established, or for which further retention is not economical. The target date for identifying the specific items to be held for MAP is June 30, 1958. The establishment of the MAP accounts will be concurrent with the identification and approval of the items to be held. Sixteen thousand of the nineteen thousand tons of World War II parts remaining on hand at Mannheim have been marked for military aid programs or have been processed for transfer to property disposal.

INTERSERVICE UTILIZATION OF MATERIALS

Mr. MAHON. The staff found that the Materials Redistribution Division was doing an excellent job of listing and circularizing excess property to encourage utilization, but that they had no authority to substitute suitable excess property for existing requirements. Only $80 million of the $1.9 billion worth of reportable excess screened through the MRD was utilized in the Department of Defense.

How can the Materials Redistribution Division, now known as IMUA—Interservice Materials Utilization Agency—be given authority to really effect utilization of excess property, especially on the more common use, nonmilitary items?

Admiral BOUNDY. It is very true, sir, only about 3½ percent of the material which is circularized from the IMUA is picked up by another service. I think that Mr. McGuire mentioned the fact that we have an accelerated item reduction program to get more commonalty. At the present time, out of our 3,200,000 items in the service, only about 14 percent are common from one service to another. Good progress is being made in that direction, but it is true about only 3½ percent. It has increased a little bit this year, the first 6 months, and now about 3.9 percent of the material which is circulated from one service to the other is picked up.

Mr. MAHON. It seems to me that this Interservice Materials Utilization Agency, IMUA, has the possibility of being very valuable to the taxpayer and to the Department. I wonder if you would agree with that.

Admiral BOUNDY. Yes; that is true.

Mr. MAHON. Of course, the percentage of utilization is so small it does not seem to be getting much done now.

Admiral BOUNDY. There is one more figure here that I think is pertinent. There is a good deal of local screening in the procurement process before the material is finally reported to the IMUA. Actually, the pickup in the screening process is the most important and that is where we are getting the most usage.

Mr. MAHON. In 1957 there was only $50 million worth of nonreportable excess property utilized by the military. This was out of $3 billion worth of such excess property that was generated. None of this $3 billion worth of property had to be screened through the MRD under the rules and it is subject to screening in a local geographical area only voluntarily by the holding or owning agency. This is a serious loophole in the regulations purporting to effect utilization. You have commented on this in your statement a number of times, but I am still not clear as to whether anything has been done regarding utilization of the property classified as nonreportable. Will you tell us what has or will be done in this regard?

Admiral BOUNDY. I think the thing Mr. McGuire mentioned is probably the most important. We have a man from business working with us to help find better merchandizing systems. I think the most important thing, too, is this. That the catalog system has been coming on for several years and it is only now that we are finally getting the services converted. They will be converted to the use of the standard numbers by the end of this calendar year. Then I think we can expect better utilization, but again there are a good many items that are nonreportable because they are not common to more than one service, and to circulate lists of items which are not common would be merely to waste money.

Mr. MCGUIRE. I think, Mr. Chairman, the real key to this thing is the tightening up of the procedures of communication, or local screening, and they will get the maximum utilization of this material out in the field locally where they presumably have the most active use of it. We are taking steps in that direction. Prior to this study

we turned up several areas we think need tightening up in this respect.

REIMBURSEMENT POLICY ON TRANSFERS OF EXCESS STOCK

Mr. MAHON. The staff believes that existing reimbursement requirements prevent full utilization of surplus by the services. If a service has to pay for used equipment it prefers to buy new directly from the manufacturer. They found for instance that stock funded sandbags and barbed wire located in Japan are desired by the Eighth Army but that the Eighth Army does not have sufficient funds on hand to pay for them. It appears that instead of utilizing these excess stocks new supplies will be bought when funds become available.

I think my point is clear. Now has any progress been made on developing a uniform policy within and among the services on reimbursement for transfers of excess stock fund property? Why require any reimbursement among services able to effect utilization?

Mr. MCGUIRE. I think that we have made a substantial amount of progress, Mr. Chairman. I mentioned in my statement some of the things we have done and I mentioned the objectives we are working to and things we have done in that respect. We have recognized them as interim. This problem is one that is serious in my opinion and must be solved and will be solved. We have a general agreement that it has to be solved.

Fundamentally it says, "Shall we in the services, individually, spend money or demand money when we have an asset that can be used by another service, and if we do not do this we will require dollars to be expended by the Treasury." That is the way that I explain it.

Now, Admiral Boundy, I would like for you to give some of the more detailed explanations of the steps that we are taking on this. I think this is one of the best things we have done in the last year in facing up to this problem.

Admiral BOUNDY. You will remember, Mr. Chairman, last fall there was a limitation on expenditures that it would not——

Mr. MAHON. We have heard about that.

Admiral BOUNDY. It meant this to the services: It meant if one service offered another service some material and the other service was not at the time able to buy, it could not pick up the material. Mr. McGuire brought this to the attention of Secretary McNeil, who immediately stated that this was Government property, that we must find a means of transferring material from one service to another even without charge if there is a necessity for it, and if the first service does not need it.

Mr. MAHON. There would be no expenditure with regard to that, so why would you be upset by the expenditure limitation on this kind of thing?

Admiral BOUNDY. From stock fund material, Mr. Chairman, there is an expenditure.

Mr. MAHON. Within the services, there is.

TRANSFERABLE AND RELEASABLE ASSETS

Admiral BOUNDY. Mr. McNeil has changed a good many of the ground rules. Now the supply and fiscal policy are much closer to-

gether. There is in the Pentagon today a very important piece of paper called transferable assets and releasable assets, by which material can flow from one service to another, in some cases without reimbursement, in some cases at a reduced price, and in some cases with reimbursement if that service is in a position to buy with money which you have granted it.

Mr. MAHON. I wish that you would give us a little clearer picture for the record.

Mr. MCGUIRE. The essence of this is that if we have assets beyond our mobilization base requirements and beyond our operating requirements—which we have in the past called all kinds of things which I am not necessarily in agreement with—these are transferable assets. If somebody else needs them we will give them to them. He does not have to spend any money for this exercise. Now if we have assets within the category of the mobilization base, our peacetime operating stocks, they can sell those and they can also make minor adjustments in price for the condition of the goods. These we call releasable assets. Let us say that there is some risk involved in buying from a fellow something that has been shopworn or shelfworn to get this stuff out in the field where there are no barriers to a free flow back and forth. It is a pretty ridiculous situation when you can give away goods to the Red Cross but you cannot give away to your own services, and we are trying to eliminate that barrier.

Mr. McNeil is very quick to realize this. Our fiscal policies must be attuned to the policy of our mission, which is to make the maximum utilization of our logistic support.

Mr. MILLER. It does not seem to me to make sense if they are declared as not needed by any of the services.

Mr. MCGUIRE. You misunderstood me. I took a whole basket of things there. You have operating stocks and mobilization reserves. Then you have what you call economic retention. That is something that you can foresee a future need for. Then you have excess beyond that, and then you have that which you have declared surplus. What we are saying is that anything beyond the valid requirement of a mobilization base and the operating stocks, must be put into the category of "transferable." Let it flow back and forth and satisfy our needs and take away this justification, if you will, which people might hang to: "Some day I might have a need for it." We say that "some day" is too far off. Let the fellow who has a need today utilize it for the best interests of overall defense.

Mr. MILLER. Is it not actually surplus?

Mr. MCGUIRE. No.

Mr. MILLER. It is something that you do not need in the mobilization reserve?

Mr. MCGUIRE. That is right. This is the situation: How long are you going to maintain stocks, and for what period of time? If I buy a pair of shoes, size 7—yes, I can use them, but I do not want to hold them in my inventory because I am not going to have to use them until a year from now. I would rather turn them over to the fellow who can use them tomorrow morning and keep the inventory fluid and workable.

(The following supplemental statement was submitted subsequently for the record.)

The transferable asset and releasable asset programs are designed to provide for increased utilization within the Department of Defense of assets held by each of the services individually. These programs are aimed at eliminating the administrative and fiscal barriers which have been observed as deterrents to good utilization of property. Up to this point in time, Department of Defense policies have prescribed for the transfer of excess property between services at reduced prices and the transfer of any contingency retention or economic retention stocks at full price. Current transfer programs provide for the circularization of excess listings among the military services for certain classes of reportable property and for the preprocurement screening of certain interserviceable items before procurement action was initiated.

We have found, under current DOD policy and transfer programs: (1) that there has been little or no buyer-seller incentive; (2) surpluses have generated because of automatic release dates; (3) circularization of excesses was somewhat limited; (4) that transfers were based on immediate procurement needs rather than on future requirements; and (5) that we had a lack of common definition for what constituted releasable assets. The releasable-transferable program is based on the approved planning cycle for requirements determination, and extends through the authorized mobilization planning period. Stocks held by one service to meet mobilization day materiel requirements, and the program retention period for 2 of the intervening 3 years of the planning cycle, are classified as releasable and will be subject to transfer with reimbursement. This has the effect of making available to another service something it requires and, at the same time, provides an opportunity to rotate stocks held for mobilization purposes which has not existed up to this time. There is also the added benefit of reduced transportation costs because of the opportunity to more appropriately direct replacement materiel to new locations required by changes in distribution plans. Of course, prepositioned mobilization reserves which are in location in support of immediate "mount-out" operations are exempted from this policy.

The transferable asset program provides that all stocks held in inventory by a military service which are beyond the mobilization day materiel requirement, the program retention requirements, and the current year's consumption requirements, will be transferred between services without requirement for reimbursement. A significant feature of this program is that, as we now visualize the system, a more effective method must be established for the interchange of data. It seems to us now that this can be done only through the use of a mechanized procedure which will employ data processing equipment to the fullest. Procedures to accomplish this task on a complete Department of Defense coordinated basis are now being developed for discussion with the military services.

In summary, the releasable asset and transferable asset programs provide for a clear identification of what is releasable and what is transferable. They provide a new and sounder base on which stocks will be transferred within the Department of Defense, and simplified procedures for reinvestment authority by inventory managers. The range of items available for interservicing is increased, military readiness is improved at no increase in cost to military appropriations, a more effective base for rotation of reserves is provided, and we have removed barriers to interservice utilization and replaced them with incentives.

ECONOMIC INTERSERVICING OF VEHICLES AND COMPONENTS

Mr. MAHON. The Interservice Supply Support Committee reported that during the first 6 months of 1957 they accomplished interservice transfers of material valued at $40.2 million. It can be assumed that the $40.2 million was cited as proof of the success of the program. About half of the $40.2 million was in vehicles and components. During the previous 6 months $20 million out of a total of some $25 million was also traceable to the same type of material. What procedures had the ISSC instituted with respect to this category of supplies that were not in effect prior to its establishment?

Mr. MCGUIRE. The ISSC has increased the economic interservicing of vehicles and components as a result of the following ISS program procedures:

(*a*) Mandatory screening of the assets of all services before procurement of any interserviceable items. Procedures of the ISS program are not restricted to the interservicing of excess material. Interservicing of mobilization reserve and operating stocks is frequently accomplished wherever these actions result in economical utilization.

(*b*) Periodic meeting of service inventory control point representatives. These representatives discuss mutual problems and exchange information to promote further materiel utilization and to resolve common supply management problems. Records of these meetings for CCG 4 (vehicles and components) reveal that major interservice transfers of vehicles have been accomplished through joint meeting discussions.

Prior to the ISS program, interservicing of vehicles and components was primarily accomplished through the single-service procurement and excess utilization (MRD) programs. Any interservicing accomplished outside these programs was limited, spasmodic and not established as a formal, continuing routine. The single-service procurement program achieved only a partial and incomplete screening of other service assets before purchase action, since only vehicle stocks of the procuring service were reviewed. Under excess utilization procedures, interservicing was restricted to excess stocks above service economic retention levels.

It is emphasized that ISSC procedures promoting economical interservicing are not restricted to vehicles and components, but cover all commodities included under the program.

EFFECTIVENESS OF INTERSERVICE SUPPLY ACTIVITIES

Mr. MAHON. While the reported interservice transfer of supplies between stock managers of $40.2 million is a comparative "drop in the bucket" to the total spent for supplies in the areas covered by ISSC, the staff report shows that the actual transfers resulting from the ISSC program was only $1.2 million. It is my understanding the staff does not contend that the $40.2 million transfers did not take place but does contend that about $39 million would have been transferred regardless. It seems incorrect therefore to claim the $39 million as proof the ISSC program has been successful in correcting deficiencies which existed before its establishment. What then is the basis for the statement in the latest ISSC semiannual progress report to the respective heads of the military services that "the program to date has been highly successful."

Mr. MCGUIRE. The effectiveness of interservice supply support cannot properly be measured by comparison of the dollar volume of interservice supply support with the dollar volume of supply procurement. Only about 15 percent of items procured by the military departments are common to more than one department. This is due to the different and specialized mission of each of the military departments.

Similarly, the effectiveness of the interservice supply support cannot be measured only in terms of sheer dollar volume of interservice supply support transfers. If supply management and procurement practices are being constantly improved and made more efficient, as we hope they are, the volume of the interservice supply transfers should be constantly decreasing due to more accurate requirement computations and more balanced inventories.

The primary purpose of the interservice supply support program is to obtain more efficient utilization of all available DOD assets in order to prevent or minimize the possibility of concurrent buying and selling of materiel by the respective military departments. In this respect it is the opinion of the Interservice Supply Support Committee that the program has been highly successful. This was the basis for their progress report statement that "the program to date has been highly successful."

DELAY IN ISSC PROGRAM DUE TO APPOINTMENT PROCEDURES

Mr. MAHON. Certain exhibits which accompanied the staff report show that both ASD (S&L) and ASD (Comptroller) were completely aware of the fact that the ISSC program was being stymied in part at least, because of fiscal (apportionment) procedures. Has anything been done to correct this condition?

Mr. MCGUIRE. The Bureau of the Budget is required by law to apportion obligational authority of appropriated funds and stock funds, except that in the case of the latter it may grant exemption. The BOB has not granted exemption of stock funds from apportionment.

The apportionment process should not inhibit interservice supply support if sales programs are estimated for this area in advance so that obligational authority can be apportioned. This is being specifically clarified with the military departments to assure that no misunderstanding exists, and that estimated sales and obligational requirements are contained in budget and apportionment requests.

CONTINUED OPERATION OF FORT DIX BAKERY

Mr. MAHON. You will recall that the staff report pointed out the OQMG ordered the bread bakery at Fort Dix to continue operations despite the fact bread could be purchased at less cost from a nearby bakery. This may be an isolated instance which came to the attention of our investigators but how do you reconcile this decision with the provisions of a DOD directive to discontinue unwarranted commercial-type operations?

Mr. MCGUIRE. Statements contained in the staff report are generally correct except for that portion which indicates that training of personnel for bread baking is not performed in garrison bakeries. Fixed garrison bread bakeries contain basically the same equipment as mobile bakeries and personnel trained in garrison bakeries can operate mobile bakeries.

A unique problem area exists which demands that a minimum of 15 CONUS bakeries be maintained to support the oversea rotational base. In this connection, 249 bakers are required and authorized to provide staffing for 26 overseas bakeries. Enlisted bakers overseas must be rotated for the same valid reasons applying to military personnel in any other occupationed specialty. Therefore, since commercial bakeries do not supply manpower, it has been determined that 15 CONUS bakeries are currently required to provide trained bakers for overseas requirements. The garrison bakery at Fort Dix, N. J., was approved as one of these 15 CONUS bakeries to support the specialists rotation program.

APPARENT "ROADBLOCKS" DELAYING INTERSERVICE SUPPLY ACTIVITIES

Mr. MAHON. The staff reported the ISSC program has not been effective because:

1. Inventory managers are reluctant to release assets because under present procedures reimbursement dollars received from the "buying" service cannot be reinvested and are made available to the "selling" service only through apportionment procedures.

2. Inventory managers are reluctant to buy from another service releasable assets which may have been in stock for a considerable period of time when they can buy new stocks at the same price.

This results in less than optimum use of supplies and expensive redistribution. The staff noted several specific instances where the services did not follow the course prescribed. Is OSD doing anything to eliminate these roadblocks?

Mr. MCGUIRE. The OSD has taken the following actions to remove the roadblocks cited by the committee in order to obtain improved utilization and redistribution of DOD materiel through the interservice supply support program:

1. The Materiel Redistribution Division (MRD) was reorganized in December 1957 and renamed the Interservice Materiel Utilization Agency (IMUA) with broader responsibilities which were designed to increase its effectiveness. As in the past, all reportable excess property is reported to this Agency for screening. Now, in addition to the screening of excess property, the program covers screening of procurement against total DOD inventories to determine the possibility of effecting utilization of available assets in lieu of new procurement. Mandatory rules have been established under which all proposed procurements of interserviceable items over certain dollar value must be screened against available stocks of all services before the procurement is authorized.

2. Conversion to the use of the Federal catalog in all commodity areas is being rushed to completion before the scheduled date of December 31, 1958. At this time, the changeover is approximately 90 percent complete. Upon completion of conversion operation, each service will use the same number to identify the same item of supply. Consequently, this will increase the potential for interservicing and supply management improvement.

3. An aggressive program has been initiated to increase the commonality of items between the services and thereby provide a much broader base upon which interservicing of supplies can occur. This program, titled "Accelerated Item Reduction Program" (AIR), should make more items amenable to interservice supply support.

4. A policy directive has been developed, and is now in the process of being staffed, which will do much to eliminate the fiscal and reimbursement roadblocks in the path of interservice supply. In brief, this directive will facilitate interservice supply support by simplifying fiscal procedures as follows:

(*a*) Materiel which is beyond the mobilization needs of the owning service will be transferred to other services, where a valid deficit exists, without reimbursement.

(*b*) Materiel which is held to meet mobilization and peacetime operating needs may be transferred to needing services by the selling

service with authority to reinvest the proceeds when replacement is required.

LEGAL OBSTACLES TO OVERSEAS DISPOSAL SALES

Mr. MAHON. Now, there are legal obstacles to disposal of surplus supplies overseas. I wish that you would comment on what the Office of the Secretary of Defense is doing in regard to recommendations to Congress, or otherwise, to eliminate these obstacles.

(The following statement was submitted for the record:)

There are two legal obstacles to sales overseas which are contained in Public Law 152, 81st Congress, as amended:

1. Section 207 requires that each proposed sale to any 1 buyer of property which originally cost a total of $1 million or more be referred to the Attorney General for determination as to whether or not the sale would create or maintain a situation inconsistent with the antitrust laws. The criterion of $1 million applies to the property's original cost regardless of its value at the time of sale; this also includes sales of scrap derived from property which originally cost $1 million or more. Cases cannot be referred to the Attorney General until after bids have been opened and the high bidder ascertained. The time required to obtain all necessary data regarding the bidder and to receive a determination from the Attorney General delays the final award a considerable period of time. Two bills, S. 2752 and H. R. 9169, were introduced in Congress during August 1957, to raise the cost limitation from $1 million to $3 million and to delete from the requirement any sale of scrap or salvage property regardless of original cost.

2. Section 402 prohibits the importation into the United States of foreign excess property unless the Secretary of Agriculture (for agricultural commodities) or the Secretary of Commerce (for all other property) determine that such importation would relieve domestic shortages or otherwise would be beneficial to the economy of this country; all contracts of sale contain this restriction. Agricultural products present no problem since little, if any, of this type commodity is sold. However, with respect to other commodities, the time element involved for a sale makes it practically impossible for an interested buyer to apply to the Secretary of Commerce, receive a decision and, if affirmative, to inspect the property and submit a bid. This, together with the fact that few requests are approved, has decreased the interest of domestic buyers in overseas sales with the result that greater reliance must be placed on foreign markets with their many restrictions. The Department of Defense is discussing this matter with other interested agencies (mainly the Departments of Commerce and Treasury) and if it is determined that it would be feasible to remove the restriction, appropriate legislation will be recommended to the Congress at a later date.

In addition to legal obstacles, other obstacles are imposed on foreign excess sales as follows:

1. OBSTACLES IMPOSED BY THE DEPARTMENT OF DEFENSE

In order to comply with the policy on East-West trade controls to prevent strategic materials from reaching undesirable destinations, the DOD imposed certain restrictions on the sale of such materials located in foreign countries. These materials, such as automotive vehicles, spares and parts, construction equipment, roadbuilding machinery, etc., may be sold for use only when (1) the proposed buyer can obtain and furnish a written guaranty from his Government assuring that the property will be used in the economy of that country and will not be permitted to be reexported, or (2) the property is to enter the economy of the United States or Canada. In addition, the purchaser is required to relinquish shipping control to the United States to prevent diversion during transit. When prospective purchasers are unable to comply with these conditions, the property must be scrapped and is sold for scrap uses only.

Sales cannot be finalized until the high bidders have been determined and afforded an opportunity to obtain the guaranties. Over the period of time, it has been found that most countries cannot or will not issue such guaranties. This has resulted in considerable delays, with the bulk of such property being scrapped, and a build-up in the amount of this type property to be sold. Therefore, this matter has been given considerable attention in our effort to alleviate the situa-

tion and, at the same time, to assure adequate controls. As a result, the DOD will be in a position in the very near future to cancel the above restrictions on sales. In lieu thereof, the proposed procedure will parallel, to the extent applicable, controls exercised by the United States Government over similar items being exported commercially from the United States. This will include the application of the existing import certificate-delivery verification system to foreign excess sales, and imposition of terms and conditions of sale to assure adequate controls and at the same time permit the expeditious sale of these commodities.

2. OBSTACLES IMPOSED BY FOREIGN GOVERNMENTS (VARIES AMONG COUNTRIES)

(*a*) Approvals by the Government before a sale may be held.
(*b*) Foreign governments priority and time limit to buy property at mutually agreed prices.
(*c*) Prohibition against sale of certain property other than for export, as well as prohibition on exports.
(*d*) Price controls.
(*e*) Restriction on quantities which may be sold to buyers within the country through annual limitation on amount of proceeds which may be received.
(*f*) Limitation on the number of locations from which sales may be conducted.

SPECIAL SALES FUNDS

Mr. MAHON. The staff found that the special sales funds appropriated by Congress for use in promoting the sale of surplus property were not uniformly utilized nor fully utilized—yet the disposal program was being curtailed in certain areas because of lack of funds.

What can be done to effect uniform application and use of the Department of Defense special sales fund appropriated by Congress to effect more efficient and timely disposal of property?

You have already commented on that. I wish that you would elaborate for the record a little more in regard to this precise question.

(The following statement was submitted for the record:)

The Department of Defense believes that revised language in section 611 of the DOD appropriations, fiscal year 1959 budget can be of substantial benefit in reducing inventory investment and supply system costs. As in like provisions of previous years, section 611 for fiscal year 1959 provides a specific amount of funds to finance expenses of transportation, demilitarization, and other preparation for sale or salvage of military supplies, equipment, and materiel. The funds provided under this provision are made available from the proceeds from the sale of scrap, salvage, or surplus materials. The purpose of this language has been to provide for the expeditious disposal of defense property no longer needed by the Federal Government.

All of the military services are engaged currently in aggressive inventory reduction programs. In considering the effect of these major inventory reduction programs which are underway, the current language of section 611 includes certain limitations which, in our opinion, will restrict the ability of the Department of Defense in achieving the required rate of disposal. The primary limitations which are contained in the current language are:

First, the Comptroller General has ruled that the funds provided under this provision are the only funds which may be used to finance the costs cited in the provision, which means that appropriated operation and maintenance funds cannot be used to finance such costs of either the current or the expanding program.

Second, the prospective magnitude of the program, including requirements to abandon potentially dangerous property and for the authorized donable property program, as well as requirements for processing property for sale, is such that the proposed limitation of $49.0 million does not appear adequate and it is extremely difficult to forecast an amount which could be accurately determined as adequate.

The gross proceeds from sale of scrap, salvage or surplus materials has amounted to approximately four times the total of costs incurred under this general provision. It would appear to be to the interest of the Government to

eliminate this restriction on costs and allow the disposal program to be financed on a requirements basis. To the extent that justified costs of the disposal program increase, it can be expected that proceeds from sale will normally increase in proportion. At the same time, the resulting decrease in defense inventaries should be reflected in significant cost reductions in storage, inventory control, and accounting functions. Revision should also provide for initial costs of the disposal program to be incurred under operation and maintenance appropriations which would eliminate the restriction imposed by the Comptroller General's decision.

The Department of Defense is drafting revised language to accomplish the changes in language which we feel are required to meet the purposes cited above.

CONSOLIDATION OF DISPOSAL AREAS

Mr. MAHON. The report lists some nine possible advantages of designating consolidated disposal areas. It found that two areas, one at Norfolk, Va., and the other at Ogden, Utah, were consolidated under Navy jurisdiction in 1950 and that the results are still being studied. Consolidation was recommended for the Philadelphia area over a year ago but this recommendation is still being studied.

In view of the many advantages of consolidating all service sales in some geographical areas, why have we only two such areas being established in the United States? Why has the Philadelphia area not been consolidated?

You may comment briefly for the record and then supply additional information.

Mr. MCGUIRE. I think that is a good question. I am of the personal opinion that we should consolidate this thing and not let the difficulties be the guideline. I think the basic objective in this thing is to get the maximum benefits out of it, and I think we can. I personally visited Norfolk checking into this subject, and I had Admiral Boundy go out to Ogden, Utah. I cannot specifically answer you with regard to Philadelphia. I think that it comes to a matter of local agreement. I think that I can assure you we can make a substantial amount of progress in this area within a reasonable period of time.

I might say this to you; although we are making this study in some detail I felt that we ought to wait as long as we were so close to finishing it so that we would not go off impetuously. This is the kind of thing, as a businessman coming in here, I see no reason why it cannot be done, but I thought that I had better keep my ducks in a row and know what I am talking about before I make any kind of a decision.

Mr. MAHON. Tomorrow this committee may be considering language. If you have some language having to do with surplus disposal which you think is good, whether it has been completely approved or not, we would like to have the advantage of it in giving consideration to the language provisions in the bill.

Mr. MCGUIRE. We shall submit that.

(Discussion off the record.)

Mr. MAHON. We are anxious for the printed record to be as coherent and understandable as possible, and we want to make sure that wherever we have asked for amplification of answers the amplification is presented. We want the testimony to be as clear as possible and we want to keep the testimony in proper areas.

VALUE OF STAFF INVESTIGATION

As I have said, these studies have been expensive to make. I think that they are going to prove more helpful this year than ever before. I think we shall be referring to this information and I hope the services will be referring to the information. I hope the whole study will prove to be objective in every respect and in the best interests of national defense and the taxpayers.

Do you have a response to that?

Mr. McGuire. I should hope that you would continue the studies. In my opinion, they are helpful and they are objective and they are addressing themselves to operating problems that we have. Some of them we have not recognized. We appreciate your help in that respect. I think that I can speak for the Department in saying that these studies will pay off. They can have a return made on them.

Mr. Mahon. General Moore, will you cooperate in preparing this record for the committee?

General Moore. I shall be happy to do so. I am quite sure everybody who is here, and their assistants, will do the same thing.

(Discussion off the record.)

Mr. Mahon. Thank you very much for your assistance, and we will continue to work with you and through you.

Mr. Wigglesworth. I want to make one observation and one request, Mr. Chairman.

I feel that this hearing on the surveys made by the committee staff in this field have been extremely helpful. I think they have been valuable to this committee. I hope they have been valuable to the respresentatives of the services.

I am pleased that the services have indicated that the studies are useful from their point of view. I am also pleased to note the progress that has already been made, or is being made, in the field covered by the studies.

PROGRAMS LEADING TO MORE EFFECTIVE PROCUREMENT AND SUPPLY MANAGEMENT SYSTEMS

This, of course, is a part of the overall problem of trying to put the Department of Defense, and the Departments of the Army, the Navy, and the Air Force on an efficient, economical, businesslike basis which is not a new problem to this committee. It is a problem upon which we have labored for years, both those on this side of the table and those on the other side of the table.

When I recall the conditions that prevailed some years ago and the testimony that we have had in the meantime, I cannot escape the conclusion that tremendous progress has been made in the right direction.

Some years ago—I think at the end of the first year of Secretary Wilson's administration, I asked the Department of Defense, the Department of the Army, the Department of the Navy, and the Department of the Air Force to provide for the record a summary of steps taken during the preceding year in the direction of economy and efficiency. The information was provided that year and has been provided for each fiscal year since that time.

It appears in the hearings of this subcommittee, and makes, as I say, a very impressive record of progress.

Now I have made the same request from 1 or 2 of the services in respect to the 1959 bill now under consideration. I am not sure that the request has been made with respect to all four organizations. If it has not been made, I would like to make it now, General Moore, for insertion in these hearings, in order that the picture may be brought up to date.

Mr. McGuire, you have given us a few items of this character in your opening statement, but I take it no comprehensive affirmative statement appears in this connection in the fields that we have been talking about.

Mr. McGuire. No, it does not. I limited the remarks I made and tried to keep myself mainly on the subject of the report.

Mr. Wigglesworth. What I should like to obtain is an overall picture in all fields for each of the four departments, for insertion. Together, at the proper point in the hearings, and to have that portion of the overall statement which refers to procurement, supply, and surplus operations included, also, at this point in the record so that it may appear in the same volume as the questions and answers that we have had during the last day or so.

That can be easily done, can it not, either in the manner suggested, or in the alternative by inserting the complete overall picture at this point in the record?

General Moore. That will be done. I will give you, Mr. Wigglesworth, a copy of that and insert it in the record in addition.

Mr. Wigglesworth. Thank you very much.

(The information requested follows:)

MAJOR DEPARTMENT OF DEFENSE PROGRAMS LEADING TO MORE EFFECTIVE PROCUREMENT AND SUPPLY MANAGEMENT SYSTEMS

During the past year, progress continued to be made on major programs leading to the establishment of more effective and economical procurement and supply management systems throughout the Department of Defense.

A. Procurement

Price negotiation policies and techniques.—Development of uniform price negotiation policies and techniques for use by the military departments on negotiated contracts of the fixed-price and cost-reimbursement types including the establishment of subcontracting policy and the relationship between contracting officers and auditors.

Technical data.—Development of revised policy, implementing instructions and contract clauses in connection with the acquisition and use of technical data, proprietary rights, and copyrights by the Government from contractors.

Suspended and debarred bidders.—Revision of the policies and procedures in connection with the suspension and debarment of bidders for lack of business integrity and other reasons.

Small-business policies.—Codification, consolidation, and revision of small-business policies and procedures so as to make uniform within the Department of Defense and in consonance with other Government agencies.

Implementation of legislative recommendations.—Development of procedures to publicize the details of contract negotiations.

General provisions of contracts.—Revision, in conjunction with civilian agencies of the Government, of contract general provisions to up date and simplify contract clauses in consonance with latest statutes, administrative regulations, and current practices.

Implementation of legislative recommendations.—Development of policies and procedures with respect to responsibility of prospective contractors, preaward surveys, contractor experience data, contract records, bid from preparation,

rejection of bids, and performance bonds, as recommended by the Military Operations Subcommittee of the House Committee on Armed Services.

Overtime policies.—Development of policies and procedures to control the use of overtime while maintaining sufficient flexibility to meet urgent requirements.

Contractor participation in cost-reimbursement contract funding.—Revision of the underlying concept of cost-reimbursement contract payments so as to obtain greater contractor interest in inventory control.

Labor surplus set-asides.—Revision of labor surplus area set-aside policies and procedures to bring in consonance with small business set-aside policies and procedures and to make such programs mutually supporting.

Recruitment costs.—Development of criteria for guidance of field personnel to determine reasonableness of contractors' costs for the recruitment of engineering and scientific personnel.

B. Supply Management

Federal catalog program.—As of December 31, 1957, there was a total of 3,451,058 active item identifications in the supply system. During the year 1957, the total number of active item identifications increased at the rate of 27,000 per month. Each new item was centrally processed and stock numbered within 10 working days.

Conversion involves the changeover to use of the Federal catalog system to the exclusion of all other cataloging and stock-numbering systems in all functions of supply from initial purchase to ultimate use or disposal. The phase began in the middle of 1953 and is scheduled to be completed by the end of 1958. As of December 31, 1957, the status of this phase of the effort was as follows:

Activity	Conversion transactions to be completed (estimate)	Conversion transactions completed	Percent completed
Army	872,411	872,411	100.0
Navy	1,147,065	890,076	77.6
Air Force	1,319,371	1,043,983	79.1
Marine Corps	211,638	189,145	89.4
Totals	3,550,485	2,995,615	84.35

Project AIR (accelerated item reduction).—During the past year an accelerated item reduction (AIR) program was initiated. AIR is designed to reduce the number of items in the military supply systems. It is related to and an outgrowth of the approximately 3½ million active item identifications in the Federal catalog system. The Federal catalog system does not always identify equivalent or interchangeable items under a single Federal stock number, nor, in or of itself, reduce the number of items originally identified in the system or effect standardization of existing items. Rather, it produces information that can be used by supply managers to make reductions. As a result, the number of items actually managed is less than the number identified and cataloged. It is apparent that through various supply management actions, the number of items both cataloged and managed can be reduced. Project AIR is a time-phased program to enable this reduction.

Several actions are being taken by the DOD staff and the inventory managers of the individual services. These include development of a coding system wherein each item in the military supply systems will be assigned a series of code numbers denoting its status (i. e., standard, nonstandard, obsolete, etc.); removal of Federal stock numbers for equivalent or interchangeable items; elimination of obsolete, nonstandard, and dead items from the system; and reduction in the number of similar items through standardization. Through these actions Project AIR will improve item management and control, reduce the number of items in the system, eliminate errors in the Federal catalog system, and assist the Department of Defense standardization program.

Standardization.—A new technique for common everyday items has been adopted. This technique means that standardization need not wait engineering decisions. Interservice committees are no longer set up to standardize items. Instead, a delegation of responsibility and authority is made to one of the military departments to decide which items in specific groups will be used by

all of the military departments. This approach was developed in the fall of 1957 and formalized on January 10, 1958. Initial results indicate the DOD will be able to make substantial reductions in the numbers of items carried.

The program is being conducted upon the basis of the 531 classes of items in the Federal supply classification. As of the end of 1957, approximately 500 of the 531 classes of items had been assigned. The department which is assigned responsibility for a class is required to develop a detailed plan, in coordination with the other two departments, for standardization of the items in that class. The plan outlines the profitable areas for standardization, the priority that should be given to the actions, and a 3-year schedule of work. As of December 1957, approximately 150 plans had been developed by the military departments and submitted for approval by the Office of Assistant Secretary of Defense (Supplies and Logistics).

Interservice supply support program.—In the past year, further steps were taken to reduce the possibility of concurrent buying and selling. Among these was the reorganization of the Materiel Redistribution Division. This reorganization consolidated the Materiel Redistribution Division with other activities and the combined group was renamed the Interservice Materiel Utilization Agency. The Agency now not only manages the screening and redistribution of excess materiel, but also checks the procurement of all common items by each service against the long supply assets of the other services, whether these have been declared excess or not. As the full potential of this program is realized, it is expected that there will be significant economies achieved through reduction in inventories, storage costs, and transportation costs.

A major policy directive has been developed, and is now in the process of being staffed, which will do much to eliminate the fiscal and reimbursement roadblocks in the path of interservice supply. Briefly, this directive is designed to facilitate interservice supply support by simplifying fiscal procedures as follows: (*a*) Material which is beyond the mobilization needs of the owning service will be transferred to other services, where a valid deficit exists, without reimbursement, and (*b*) material which is held to meet mobilization and peacetime operating needs may be transferred to needing services by the selling service with authority to reinvest the proceeds when replacement is required.

Single manager program.—As previously reported, this program is designed to eliminate duplication, effect economies, and increase effectiveness throughout the Military Establishment. It is applied to common-use items in the areas of subsistence, clothing and textiles, petroleum, and medical supplies, and to the common services of ocean transportation, traffic management, and airlift.

During the past year, major emphasis was placed on streamlining the operations of these single manager assignments and getting them underway. Distribution patterns for the commodity groups were developed and submitted for approval. In recent staff studies, notable, though preliminary, savings have been reported as a result of this program. For example since January 1957, when the Military Medical Supply Agency began operations, it has reduced its annual operating costs from $4.2 million to $3.3 million. At the present time the MMSA has a total authorized strength of 665; the number of personnel spaces assigned in January 1957 was 880. The total personnel savings by the MMSA after 1 year of operation are $887,000. The Military Clothing and Textile Supply Agency has reported that through the utilization of long supply assets of all the services to meet the current demands of the military departments, an estimated $14 million savings has resulted. These are but a few examples of the savings thus far achieved.

Uniform forms and reports.—Implementation of this program, begun in 1957, has resulted in some 28 standard supply operating forms replacing 120 departmental forms, plus an additional number of unidentified and locally developed forms. These forms, by and large, cover the functions of receiving, shipping, and invoicing. This program is being continued in other supply areas.

Reductions in facilities.—As a result of depot complex studies, 25 storage activities, containing a total of 29 million square feet of space, either have been or are scheduled to be inactivated.

Storage methods.—Development of the Joint Storage and Materials Handling Manual was completed during 1957. This manual replaces the separate manuals on this subject which were issued by the several military services. It provides policy, uniform criteria, standard operating practices, and procedures pertaining to materials handling and warehousing matters. It has been made available for sale to the public through the Government Printing Office. In

addition, arrangements have been made for its continued maintenance in a current status, as well as continuing improvement and additions of modern techniques and procedures.

Demilitarization of military items.—After a detailed study, there was published in 1957 a new demilitarization policy which appreciably relaxed requirements for military items located in the United States, Alaska, Hawaii, Puerto Rico, the Virgin Islands, and the Panama Canal Zone. This directive lists the military items subject to demilitarization, the key points to be demilitarized and the method and degree of demilitarization. The directive is positive, provides policy which can be uniformly implemented and reduces the hundreds of military items formerly required to be demilitarized to a relatively few, thus providing economy and efficiency of operation, reduced demilitarization costs, and greater returns from sale of such items in a usable rather than scrap state.

Improvements in policy documents.—As a continuing management procedure, previously issued policy documents were studied and evaluated in the light of their intent and design as well as in the light of their effectiveness. As a result of this review, a number of these documents were revised and improved during the past year. These included issuances concerning materials handling equipment utilization, rates for cross servicing in storage activities, designation of schools and organization as activities of special interest to the armed servces, and policy and procedures relating to donation of surplus personal property to designated activities of special interest to the armed services.

C. Disposal of Surplus

SECURITY TRADE CONTROL POLICY

In coordination with the Department of State and the Department of Commerce, a new policy has been developed which is designed to control the sale of strategic items in overseas areas. This new policy will permit more expeditious sales and overcome the objections previously encountered by many friendly foreign countries to sale of such items in their respective countries.

FOREIGN EXCESS DONATION ABANDONMENT AND DESTRUCTION

A Department of Defense instruction on donation, abandonment, and destruction of foreign excess has been prepared and is expected to be published shortly. This instruction defines the priorities and conditions under which foreign excess property will be donated, abandoned, or destroyed in oversea areas.

DONATIONS TO SPECIAL INTEREST ORGANIZATIONS

Finalized donation agreements were concluded with five national organizations eligible to receive Department of Defense surplus property. These agreements defined the types of property which may be donated and provided for definite controls. They also outlined specific criteria to accomplish this phase of the donation program.

RETAIL SALES

A policy was developed which authorizes the military departments, on a permissive basis, to sell surplus and foreign excess personal property utilizing the retail sales method.

DOD-ICA AGREEMENT

An agreement was made between the DOD and the ICA for transfer of DOD foreign excess personal property for use in approved economic aid programs of the ICA on a reimbursable basis at 10 percent of DOD standard list price, plus packing, handling, and transportation. Such transfers on this basis will be concluded under section 402, Federal Property and Administrative Services Act of 1949. This agreement provides an immediate outlet to the DOD for considerable quantities of property which would have to be processed for sale at a considerable expense and at a reduced return overall. It also provides an immediate availability of property required in support of ICA approved programs at considerably less cost to the United States Government.

SPECIAL STUDIES IN SURPLUS DISPOSAL AREAS

A management survey has been underway since February on the surplus disposal operations of the Department of Defense. Special emphasis has been given to organization for disposal, review of selling activities, methods by which bidders lists are maintained, review of merchandising practices in use by selling activities, and other related functional areas. Recommendations will be made to the Assistant Secretary of Defense (Supplies and Logistics) within the near future.

STEPS TAKEN BY THE ARMY TO ACHIEVE GREATER ECONOMY AND EFFICIENCY IN CALENDAR YEAR 1957

PROCUREMENT

The Army participated in the development of the new procurement policies and procedures cited previously by the Department of Defense and has issued necessary implementing instructions within the Army. Numerous other steps were taken by the Army during 1957 to improve the economy and efficiency of its procurement operations. Principal among these were the following:

Procurement policies and procedures

(1) Tighter controls were instituted on the use of letter contracts.

(2) Closer management surveillance was set up to insure that redetermination actions on price redeterminable contracts are accomplished timely. Statistics on progress made in this area have been furnished the committee.

(3) Further restrictions were instituted with respect to approval of authority to negotiate contracts under title 10, United States Code, section 2304 (a) (10), "impracticable to secure competition by formal advertising."

(4) Army procurement inspection policies and procedures were changed to emphasize maximum use of contractor's quality-control systems (and quality-control history), thereby reducing the workload required to be performed with Government inspectors.

(5) More specific guidance was issued to Army procurement personnel with respect to the organization and maintenance of contract files.

(6) The Army procurement procedure was revised to prescribe the method to be used in evaluating transportation costs in procurement of supplies for overseas destinations.

(7) A new 1957 edition of the Army procurement procedure was issue which provides for better organization and a closed integration of Army policies with those of the Department of Defense.

Procurement operations

(1) A careful review was made of the Army's procurement establishment which indicated that 25 offices could be reduced in size or scope or eliminated entirely as a procurement agency without endangering the base needed for rapid expansion in an emergency. The reductions in personnel to accomplish these actions began in the latter part of 1957, and by December 31, 263 spaces had been abolished. Concurrently, the Army has made considerable progress in reducing its floorspace requirements for procurement operations.

(2) The Army has continued its emphasis on the program of stabilizing tours of duty of military personnel occupying key procurement positions and has made substantial progress in the past year.

(3) The Assistant Secretary of the Army (Logistics) resumed the program of holding field procurement conferences with contracting officers and other members of the Army's procurement teams. These conferences have done much to insure closer integration of effort on the part of the Army's policymaking and operating personnel in the procurement field.

STEPS TAKEN BY THE ARMY TO ACHIEVE GREATER ECONOMY AND EFFICIENCY IN PROCUREMENT, SUPPLY, AND SURPLUS OPERATIONS

(*a*) *Army field stock-control system.*—During calendar year 1957, the Army completed the installation of the Army field stock-control system, which removes from installation stocks those items of supply which are in demand less than 3 times in 6 months, except for standby items. The installation of the Army field control system at class I installations in the United States commenced July 1, 1956, and was completed by March 1, 1957. It was completely installed in continental United States class II installations and overseas by December 31, 1957. The ordnance project 170, forerunner of the Army field stock-control system, resulted in reduction of ordnance items at installation level by 50 percent. To date, approximately 30 percent of the line items of the other technical services have been removed from station stockage lists.

(*b*) *Project MASS (modern Army supply system).*—Under project MASS, replenishment of fast-moving stocks to overseas field armies is provided within a drastically reduced order and shipping time cycle. Stocked items are provided by continental United States depots directly to a field army in less than 60 days from the preparation of the requisition, as compared to 150 days under the older system. Slow-moving items are stocked in continental United States depots only, and are shipped directly to the using unit. The concepts of selective stockage, single-line requisitioning, and direct delivery of repair parts to support an oversea field army, as treated in project MASS, have proved to be sound and workable. This method of improving distribution of supplies was first tested in 1956 between logistic installations in the United States and the Seventh United States Army in Europe.

The success so far obtained with Project MASS has justified its expansion. It was extended in 1957 to include the communications zone, USAREUR, on an integrated basis. Appropriate elements of the system are being extended to USARPAC during 1958. The use of data transceivers accounts for a great portion of the reduction in order and shipping time accomplished with Project MASS. The Army has virtually completed the installation of a network linking the overseas commands with the major continental United States supply activities, and will complete this phase of the program and broaden the use of this equipment during 1958.

(*c*) *Self-service supply centers.*—Distribution of expendable supplies on a self-service, supermarket basis was successfully tested at Fort Lee, Va., and Fort Lewis, Wash., during calendar year 1956. The system proved to be a much more rapid, economical, and efficient method of distributing expendable supplies at posts, camps, and stations than the old system of submitting requisitions and then waiting for the items to be found and delivered. The system has now been extended to many class I, II, and III installations. There are now 54 self-service supply centers in operation in areas where the volume of retail supply transactions warrant their use. This system has eliminated much paperwork, as it permits each requisitioner, i. e., each customer, to select and carry out his own supplies, as is done by the customers at the modern supermarkets.

(*d*) *Local-purchase procurement.*—The Army has reduced the workload on the wholesale supply system by (1) requiring posts, camps, and stations to buy many of their supplies for local stores, and (2) increasing the volume of supplies that are delivered by the vendor direct to the user. This latter procedure eliminates the shipping of supplies to a warehouse as an intermediate point. Thirty percent of the dollar value of all stock-fund items procured during 1957 were shipped directly from the producer to the ultimate consumer or to ports of embarkation. In addition, 24 percent of the stock-fund items used at post, camp, and station level were purchased locally. Accordingly, about 54 percent of the dollar value of all stock funds issued in 1957 bypassed the depot system.

(*e*) *Elimination of charges for shipment of empty cargo transporters.*—Cargo transporters (conex are used to ship certain items to Alaska. These transporters must be returned to the continental United States, and previously were shipped to the Seattle Army Terminal at a cost of $41 each. After a careful cost analysis by the Transportation Office, United States Army, Alaska, these transporters are being used as containers for third- and fourth-class mail on their return trip. This results in no cost for shipping the transporters, as they move without charge when shipped as containers for cargo.

STEPS TAKEN BY THE DEPARTMENT OF THE NAVY IN FISCAL YEAR 1957 TO ACHIEVE ECONOMY AND EFFICIENCY

I. PROCUREMENT AND PRODUCTION

(*a*) *Short-form contracts.*—The use of short-form contracts to effect purchases in excess of $1,000 each was not authorized prior to 1957. The Navy was instrumental in obtaining authority to use the simplified forms in lieu of regular 2-party contracts covering purchases in amounts between $1,000 and $2,500. During the period July–December 1957, field purchasing activities of the Bureau of Supplies and Accounts placed approximately 5,000 short-form contracts in lieu of the regular 2-party contracts. It is estimated that savings of approximately $200,000 resulted.

(*b*) *Small-business participation in research and development.*—In recognition of the fact that it is in the interest of the national defense and national economy to expand the number of small-business concerns participating in research and development, the Navy issued a directive in March of 1957 calling for a unified effort on the part of all Navy personnel to seek out qualified small-business firms and make maximum utilization of such firms in research and development work. To supplement this policy, current plans call for the holding of periodic research and development symposiums in Washington, D. C., and throughout the United States to inform small concerns of the Navy's research and development requirements and its interest in utilizing small firms for such services to the maximum practicable extent.

(*c*) *Airframe procurement.*—A study of the optimum types of contracts to be used for airframe procurement was completed in December 1957. The purpose of the study was to determine the contractual approach to airframe procurement that will yield the best operational aircraft with the shortest reasonable lead time and the lowest reasonable cost. It is anticipated that the study will result in improved procurement procedures.

(*d*) *Utilities.*—Basic utilities are usually procured by the Navy from commercial sources, for which the Bureau of Yards and Docks expended approximately $40 million during the year. Through constant rate review and by careful negotiations of contracts, savings of $3,500,000 of a recurring nature and $5,700,000 of a nonrecurring nature were effected.

(*e*) *Aircraft-engine procurement.*—The Department embarked on a change of contractual arrangement with the Pratt & Whitney division of United Aircraft Corp., requiring substantial changes in the method of compiling costs for engines, both reciprocal and jet, which have resulted in substantial immediate savings (estimated at $7 million minimum for the current annual contract). Substantial savings are also anticipated in the future, as well as the ability to fix firm prices for engines in being.

(*f*) *Procurement from small business.*—It has long been recognized that encouraging increased small-business participation in current procurement will result in significant savings in the cost of defense material and services and in the improvement of the Nation's mobilization readiness. To accomplish this objective, the Navy participated in 27 procurement conferences throughout the United States which were designed to interest additional qualified small-business suppliers to serve as military prime contractors and subcontractors. Many new Navy suppliers were obtained as a result of these conferences. The benefit of obtaining such new suppliers far outweighed the cost involved in furnishing exhibits, speakers, and procurement personnel for these conferences.

(*g*) *Progress payments.*—Percentages for progress payments have been reduced so that progress payments based on costs relating to contracts, supplements, amendments, and modifications entered into after September 1, 1957, are not to exceed 70 percent of total costs or 85 percent of the cost of direct labor and material. However, an exception is made in negotiated procurement with small-business concerns, and contracting officers have been authorized to provide, so long as reasonably necessary, progress payments up to 75 percent of cost or 90 percent of cost of direct labor and material for such small-business concerns.

(*h*) *Production-management improvement program.*—A program designed to result in immediate and long-range improvements at Bureau of Ordnance production activities received initial impetus as a formal organized effort in April of 1956. The program involves 23 stations and is currently under way.

(*i*) *Engineered time standards.*—The Bureau of Ordnance has also embarked on a substantial program of installing engineered time standards in the work of its field activities. Its goal is the application of standards to 95 percent of the direct-labor man-hours, including the materials handling incident thereto at the ammunition depots and similar activities and to the production and assembly work at ordnance plants.

(*j*) *Value engineering in the Bureau of Ships.*—The Bureau of Ships value-engineering program made significant progress in reducing the costs of ship construction, maintenance, and the manufacture and installation of shipboard equipment. Incentive-type value-engineering amendments have been made by the Navy with 6 commercial shipyards covering 10 contracts. One production contract has been made for electronics equipment incorporating a value-engineering clause requiring an objective effort on the part of the manufacturer to reduce the cost of the equipment while maintaining required reliability and function.

(*k*) *Standard designs for power and heating plants.*—Standard designs for powerplants in capacity ranges applicable to Navy requirements are being developed. Savings in excess of $100,000 annually are anticipated from this program by utilization of standard plant equipment, elimination of "gold plating," use of packaged boilers and optimum factory fabrication. Standard designs for heating plants have also been completed. Savings from this standardization in construction costs and efficiency of operation can be reasonably anticipated in an amount of $200,000 annually.

(*l*) *Materials conservation.*—A publication entitled, "Alternate Material Index Numbers for Critical Materials, Ferrous and Nonferrous," has been published by the Bureau of Ships. A valuable tool in pursuing the materials-conservation effort, this publication lists some 5,000 ferrous and nonferrous alloys and compares the relative availability of each material. Since the book was produced with the aid of punchcards, it can be quickly revised by electronic accounting machine methods, using the latest availabiilty factors of each material. The savings involved are twofold: designers are assisted in selecting the least critical material that will accomplish their purpose, and there is a significant reduction in calculating time for engineers, who would otherwise have to calculate the scarcity of alloys individually from the known scarcity of each ingredient.

II. FACILITIES

(*a*) *Ordnance facilities and equipment.*—Savings of $6,700,000 have been realized by the utilization of machine tools and other production equipment stored in the ordnance equipment reserve. Constant screening of this reserve has resulted in tools and equipment costing $1,530,000 being declared excess to the Bureau's need. Further a stringent review of the naval industrial reserve ordnance plants (NIROP) resulted in declaring 7 of these plants valued at $64,737,000 excess to requirements.

(*b*) *Plant equipment and construction projects at shipyards.*—A number of plant equipment and construction projects provided the naval shipyards at a cost of $560,000 will save an estimated $420,000 yearly in maintenance and operation funds. After less than 18 months, therefore, increased economy in shipyard operations will offset the original expenditure.

(*c*) *Utilities.*—In the field of utilities conservation, over 100 stations were surveyed by the Bureau of Yards and Docks. An annual potential savings of $5.6 million and an actual savings of $240,000 resulted from these surveys.

(*d*) *Replacement of boilers.*—Base maintenance, Marine Corps Base, Camp Lejeune, replaced 2 boilers that were worn out through continuous use for a period of 15 to 16 years and which burned No. 2 fuel oil costing 11 cents per gallon. The replacement boilers are designed to burn No. 5 and No. 6 fuel oil costing 6 cents per gallon. The saving in the cost of fuel that will accrue annually is approximately $27,941.

(*e*) *Aircraft overhaul and repair.*—As a result of a study by a consulting firm of the adequacy of aircraft overhaul and repair facilities, the Bureau of Aeronautics established a long-range master workload plan and a long-range facilities plan to modernize, augment and/or replace facilities for the overhaul and repair of naval aircraft.

(*f*) *Utilization of vehicles.*—Thirty-four Marine Corps activities assigned semipermanent transportation have been designated to use a modified form of limited taxi service, both cargo and personnel. This service is furnished by the Operations Unit, Schools Motor Transport Section, Marine Corps Schools, Quantico. The service thus replaces 34 vehicles with 12 vehicles while affording

fast, efficient service to a maximum number of users at a minimum operational and maintenance expenditure. The 22 vehicles removed from service have been declared in excess of the requirements of the station.

(*g*) *Controlled maintenance program.*—The installation of controlled maintenance programs was continued in 213 naval activities and was completed in 50. In addition, installation was begun in 10 activities. The program provides a standard organization and standard operating functions and procedures for the Public Work Department of activities. Navywide results to date are: (*a*) increased production, worker efficiency, material flow, and cost consciousness, and (*b*) decreased lost time, trouble calls, and major repair projects.

(*h*) *Public-works cost analysis.*—The correlation of expenditure accounts, physical inventory codes, and work measurement reports for public works functions at Bureau of Naval Personnel activities was possible for the first time during 1957. This has permitted more uniformity in the reporting of cost and the integration of several informative source data for analytical purposes and has allowed a more meaningful and realistic development of unit cost data. This, in turn, has highlighted areas of excessive or deficient maintenance and operating costs. Initial evaluation of the program has already resulted in the disclosure of an uneconomical operation at one activity where correction has resulted in savings of several thousand dollars annually. Plans are proceeding for the development of the program into a highly effective management tool for achieving a more efficient and economical operation of the Shore Establishment.

III. SUPPLY MANAGEMENT

(*a*) *Evaluation of inventory control point performance.*—The Bureau of Supplies and Accounts continued its analysis of operating methods used by supply demand control points, concentrating particularly upon material requirements determination and the standardization of procedures. The result has been a definite contribution toward the more efficient operations of the inventory control and stock points. One example: Procedures concerning change notice cards, which on a mechanized basis, cause necessary changes to stock records in such areas as identifying numbers, unit prices, and units of issue were different for different inventory manager controlled items. The Bureau has incorporated the best features of the various change notice card reporting procedures into one standard system.

(*b*) *Acceleration and expansion of the defense cataloging program.*—Having completed the identification of 1,275,077 items of supply, the Navy now is accelerating the program to convert all materials from standard Navy stock numbers to Federal stock numbers. The success of this effort is evident in the fact that current progress exceeds scheduled conversion. On December 31, 1957, 894,337 items were managed by Federal stock numbers, and the balance of 256,894 will soon be converted. Another program has beene initiated wherein Federal stock numbers will be assigned and usesd for about 300,000 industrial production equipments.

(*c*) *Improved distribution system for medical material.*—One of the improvements expected by the adoption of the single manager plan for medical material was an improved distribution pattern. During September and October, stocks of medical material located at the Naval Supply Depot, Oakland, Calif., were transferred to the Sharpe General Depot, Lathop, Calif. Transfer of these stocks permitted the disestablishment of the medical-dental component at Oakland. Further economies were affected under single manager medical direction when the Army General Depot, Belle Mead, was disestablished in October 1957. By repositioning the AGO, Schenectady, the single manager coordinated and directed a move which will result in additional savings.

(*d*) *Mobile support ships stocks.*—Improved guidance for the establishment and maintenance of mobile support ship stocks was developed and promulgated to inventory managers and fleet commanders. It defines the categories of material to be stocked on the various types of support ships and will, in general, eliminate the echeloning of insurance items afloat. When the program is completely implemented, insurance items will be carried on individual ships and tender-repair ships only if they are within the capacity of ship's force to install and if they are required to carry out the tender-repair ship's repair and contingent missions. They will be eliminated from the range of material carried on board fleet issue ships in favor of direct support from continental United States by premium transportation. This will promote more effective utilization of the

storage capabilities of mobile support ships, as well as generate savings in the procurement and stockage of insurance items for the forces afloat.

(*e*) *Designation of inventory manager for ground electronics equipment.*—Continuing progress is being made in the elimination of inventory management problems. Illustrative is the recent action to develop procedures enabling the assignment of one inventory manager for ground electronic equipments. Previously, the many and varied uses of these end items had prompted adoption of a system wherein bureaus and offices retained ownership of funded equipments. However, after several years it became manifest that there were many inventory managers for the same equipments. The solution, jointly developed by affected bureaus and offices, enabled the Navy to designate one inventory manager, and to thereby assure that all available assets are applied to computed requirements.

(*f*) *Disposal of excess stock.*—Significant action to cause final disposal or redistribution of excess stocks was taken by the Bureau of Supplies and Accounts and its managed inventory control points. In July 1957, minimum dollar objectives for the supply demand-control points to declare to the stock points by December 31, 1957, were set as follows: $222.5 million for Navy stock account and $500 million for appropriation purchases account material. As of November 30, 1957, the Bureau of Supplies and Accounts managed inventory control points had made excess declarations to stock points of $195 million of Navy stock-account material (87 percent of objective), and $256.3 million appropriation purchase account (51 percent of objective). The net effect of this action will be reduced to inventories, reduced number of items to manage, and reduced maintenance and storage costs.

(*g*) *Stock coordination.*—The stock coordination program, which is closely related to catalog conversion, examines broad categories of material to determine the best assignment of individual items to specific inventory control points.

(1) The program of transferring supply management of repair parts from the Navy bureaus to appropriate Navy supply demand control points (SDCP's) was completed during the year and is now in a maintenance stage. Transfers under this program which began in 1954 totaled 37,718 items with an inventory value of $528,397,000. This action has provided for greater utilization of inventory management capabilities at SDPC's.

(2) Significant progress was made in furthering inter-SDCP supply suport for the repair parts required for new equipments. From January 1 through September 30, 55,000 common-type items were referred to other SDCP's, and 83 percent of the items referred were already available in the Navy supply system. This inter-SDCP support permitted maximum utilization of existing inventories and prevented the development of item duplication among the SDCP's.

(3) Approximately 90,000 items were eliminated from nonstandard stock during calendar year 1957. The "dropped" items resulted from standardization actions, eliminations of items no longer essential or required, and consolidation of identical and similar material under the inventory management of one SDCP.

STEPS TAKEN BY THE DEPARTMENT OF THE AIR FORCE TO ACHIEVE GREATER ECONOMY AND EFFICIENCY IN 1957

I. PROCUREMENT AND PRODUCTION

(*a*) *Aircraft and missile spares.*—The accurate prediction of spares requirements for new weapon systems is exceedingly difficult due to the lack of actual usage experience. Recognizing this problem, the Air Force objective is to procure only the minimum essential quantity of such items at the first buy and to defer the procurement of additional quantities until adequate experience has been gained in the operation and support of the weapon system. It is recognized that the degree to which this objective can be accomplished is dependent upon the flexibility and responsiveness of the production facility as well as the Air Force logistics system. Therefore, within the past 2 years the Air Force has investigated the type and degree of responsiveness obtainable from the manufacturers and, as a result, has adopted new policies and procedures directed toward more economical and effective initial spares procurement.

The most significant of these new policies are the "Delayed procurement concept" and the "Responsive production concept." Under the delayed procurement concept, ordering and delivery of high cost insurance type spares are deferred until the final production run must be made, allowing for the accu-

mulation of maximum operating experience with a new weapon system before a final spares order must be placed. To date, this concept has been applied in the provisioning of six new weapon systems and will be considered for application in all future provisionings.

Under the responsive production concept, a portion of the requirement for high cost operational spares is procured in unfabricated, unassembled form and is held as buffer stocks at the contractor's plant. Later, when spares demand can be predicted more reliably on the basis of actual usage experience, additional complete spares items can be produced within a very short lead-time period. When experience fails to justify a requirement for additional complete spares the materials and parts involved can be utilized in end article production. This concept was adopted within the past year and has already been applied in the provisioning of one weapon system. It is planned that this concept also will be considered for application in all future provisionings.

(*b*) *Production equipment program.*—In order to reduce expenses and obtain more effective control of our production equipment inventory, the Air Force initiated action during the past year to deactivate four machine tool storage sites. These sites will either be declared excess by the Air Force or will be put to other uses. It is estimated that these actions will result in reduction of more than $1 million per year in recurring maintenance costs.

The Air Force has continued an accelerated production equipment disposal program. During the period November 1, 1956, through October 31, 1957, disposal action was initiated on 9,327 items of production equipment. It is estimated that this will result in direct receipts to the Government of $6.5 million from the proceeds of the sale of this equipment. In addition, it will result in annual reduction of $85 per item (or a total of approximately $800,000 a year) in warehousing costs. The long-term result of this continuing emphasis on disposal, together with the Air Force policy which minimizes the purchase of new equipment under facilities expansions, will be a decrease in the size of our industrial equipment inventory with consequent additional economies to the Government in maintenance and warehousing costs.

II. SUPPLY

(*a*) *Weapon system supply management.*—The Air Force program for weapon system supply management is designed to improve materiel management and support of the Air Force's modern weapon systems. In keeping with the present global operational concept, weapon system supply management is based on the fundamental objectives of rapid and positive response to supply demands of tactical Air Force units worldwide, preciseness in the management of materiel associated with modern weapon systems, and economy in inventory.

This management program provides:

(*a*) A single Air Force control point with authority and responsibility for complete supply support of a weapon system.

(*b*) A focal point for Air Force using commands to refer all matters and problems concerning supply support of a weapon system.

(*c*) Aggregation and maintenance, at desirable dispersal locations, of a complete range of items required in direct support of the weapon system.

(*d*) A single requisitioning and distribution control point for using activities for all items in support of the weapon system.

This concept results in maximum supply effectivenes for major first-line weapon systems, improves materiel management by reducing the number of line items required to a manageable package, provides for more accuracy in requirements computations, and reduces pipeline to a minimum.

(*b*) *Expansion of transceiver network.*—The Air Force transceiver network provides a rapid means of communication between bases and depots for transmission of requisitions and supply status information. Transceivers are now operative in all Air Force depots, 69 continental United States bases and 44 oversea bases. Because of the instantaneous transmission capability of this system, invitations have been extended to major contractors to join the network and thereby provide rapid communication from point of production to point of consumption.

To date, transceiver operations have reduced transmission time of requisitions from 7 to 15 days in oversea areas and 1 to 7 days in the continental United States to a maximum of 24 hours from point of origin to the continental United States supply source. This is a reduction of from 1 to 14 days, depending upon locations of customer and supply source.

Present plans call for a continuing expansion of this system to include 57 adidtional continental United States bases and 20 oversea bases.

(c) *High-value program.*—The high-value program is one instrument the Air Force uses for selective management of Air Force materiel. This program involves the application of tighter controls to high cost items for greater efficiency and economy within the Air Force.

During 1957, the Air Force has continued to expand its high-value program. High-value criteria were applied originally only to aircraft spares; now they have been expanded to include missiles, missiles spares, and selected replacement type items. Reparable high-value items are accorded rapid processing as a means of reducing spares requirements to fill the supply pipeline.

New criteria have also been developed for computing longlife and shortlife operating items. These are designed to time-phase requirements and delivery of high-value spares according to Air Force needs. This will result in procurement of minimum quantities of spares, subsequent reductions in warehousing, requirements and transportation costs, and less severe losses through obsolescence.

(d) *Management of low-value items.*—Approximately 75 percent of the Air Force inventory is composed of items costing less than $10 per unit. In the past, requirements and buying computations for these items were based on projected programs, flying hours, aircraft or other equipment. This method required more effort than was considered realistic for these items of low monetary value. Therefore, a new concept of requirements and buying computations was developed for these items and placed in effect during 1957. This concept is based on the application of economic order principles, and substitutes straight dollar issue experience for the variable program elements previously employed. Under this concept the gross procurement level for low-value items varies depending on the total dollar value of issues experienced during the past year. For example, if annual issues for an item were $500 or less, it might be economically feasible to maintain a 4- to 5-year procurement level: whereas, if annual issues for an item were $10,000 or more, it might not be economical to maintain more than a 2-year level.

Another action taken during 1957 in connection with administration of low-value items was the authorization for Air Force base commanders to establish retail outlet stores for convenient and expedited distribution of centrally procured low cost items. The procedure is similar to that used for the distribution of expendable local purchase items. Detailed item accounting is not required for stocks in these retail stores. This results in a decrease in documentation, stock record posting and machine time at base level.

III. DISPOSAL OF EXCESS AND SURPLUS PROPERTY

Excess and surplus property which originally cost the Government $1,402,254,196 was disposed of by the Air Force worldwide during fiscal year 1957. The tabulation below reflects the disposition made of this property. Proceeds in the amount of $22,193,443, for a net return of 4.6 percent, were realized from sales to the general public. More than 50 percent of the materiel sold was of a special nature and costly, but of limited commercial value.

Disposition made	Original value
Sold to general public	$478,911,533
Donated to:	
Educational institutions	45,656,310
Civil Air Patrol, Boy Scouts, and similar organizations	10,271,527
Total	56,927,837
Transferred, without reimbursement, to Army, Navy, and other Federal agencies	97,093,778
To be used by the Air Force for purposes other than for which it was procured	261,130,051
Reclaimed or demilitarized	504,863,408
Destroyed or abandoned	3,327,589
Total	1,402,254,196

In addition to the above, the Air Force disposed of 293,065 tons of scrap and waste materiel for $13,481,685.

That is all, Mr. Chairman.

Mr. MAHON. Mr. Scrivner.

VALUE OF STAFF STUDY

Mr. SCRIVNER. Mr. Secretary and gentlemen, while members of the Committee as individuals and in small groups do have an opportunity to visit many of our military installations, and when we do make these visits we do observe many activities, some of which we find call for complaint and some of which we find call for compliment, the staff has undertaken in considerable detail to go into many subjects which this committee has discussed in times past and has sought to get some information on. They have done a very good job, and it has been very objective. It has not been punitive. It has not been done trying to point a finger at anybody.

Some of the observations they made about the situation existing did state the facts as they were, but did not always point out the rest of the story; namely, that the departments themselves have already undertaken measures to correct some of these shortcomings.

PREPARATION FOR SALE OF SCRAP AND SURPLUS MATERIAL

Now, I have just one observation and one question.

Mr. Chairman, you were talking about the language and Secretary McGuire was referring to the $41 million. I have that language in front of me and my recollection is that the $41 million is not a limitation at all on what is to be spent for the preparation for sale of scrap and surplus material, because you do have other funds which can be used. This $41 million was supposed to have been an added increment.

Now, perhaps from what has been said the thing that happened was this—inasmuch as you have the $41 million coming from the funds obtained from the sale, you have quit spending the other money, possibly maintenance and operation money, for the preparation of scrap, so the $41 million is now the limit instead of being a supplement to what we have always provided in the past. If that is true, that is wrong. That $41 million was supposed to be in addition to other moneys to be used for the sale of surplus.

I can recall when this language was first put in the bill. It was to be supplemental to other funds and was to make it possible for you to do just that much more and accomplish what you say you want to do now.

Do I understand from what you have said that these other funds are not now being used and that you are depending solely on the $41 million?

Mr. MCGUIRE. No. But I think, Mr. Scrivner, that the use of this language is considered to be somewhat limiting.

Mr. SCRIVNER. It was a limitation, yes, to the additional funds. In other words, in all of the services there are other funds available for the preparation of surplus for sale. This was just an added inducement because they came in and said, "Well, we are using our funds." I think primarily it was maintenance and operation money, was it not, General Moore?

General MOORE. Yes.

Mr. SCRIVNER. They were using that money to prepare all of this material for sale. They said that they were not getting enough back because the proceeds of sale were going into the Treasury. Of course, there was reluctance. They said, "We are spending our money, but we do not get any credit back, so this language was put into the bill to make it possible for the services to be reimbursed, or have that additional money to prepare the surplus. So, if the services are just depending upon this $41 million, they are thwarting the intent of Congress.

Mr. MCGUIRE. I will keep that in mind and discuss it with Mr. McNeil. I have been trying to point out to you, sir, that I think there is a great potential here if we can make this thing attractive to the services.

Mr. SCRIVNER. I understand what it is. The services themselves, of course, each are trying to get more and more dollars for what they call the essential, what you referred to as fighting equipment and all that. They forget that these are taxpayers' dollars and they seem to resent—and I think that is a good word—the fact that when this property, which is Uncle Sam's property—it is not Army property, Navy, property, or Air Force property; it is Uncle Sam's property—was sold the money went into the Treasury instead of coming back to them to spend for something else. There will have to be more language changes than just in this section here if you are ever going to change that, but the services should not take that attitude. They should realize that every dollar that they can get that goes into the general Treasury is helping them, and the rest of the taxpayers just that much.

There may be need not just for a change of language, but a change in the attitude of the services.

Mr. MCGUIRE. I think that you are quite right. There are points on both sides of this subject, Mr. Scrivner. I will keep that in mind. You know a great deal more about the background of this than I, with your experience. What I am trying to say is that we have a real objective here—to clean out some of the hidden costs.

Mr. SCRIVNER. With that this committee agrees, and we have been harping on it for years.

Mr. MCGUIRE. As a taxpayer I am willing to take a calculated gamble on this thing to get it moving and really see if we cannot get at the heart of this situation.

Mr. SCRIVNER. I hope you do. We are paying for far too much warehouse space for storing a lot of this stuff which we will never need again. As I have commented before on this economic reserve, maybe we will need it, but after you have had 6 or 8 or 10 years and have not needed it, it ought to be proof that you are not going to need it.

Mr. MCGUIRE. In addition to that, I have had this experience in my own business—the cost of personnel in counting things and making our reports on things is just fantastic.

Mr. SCRIVNER. And shoving it around from building to building and dock to dock.

Mr. MCGUIRE. We should get rid of it and stop counting.

Mr. SCRIVNER. I am in favor of it and this committee is.

General MOORE. I think the record should show at this point this provision grew out of a realization on the part of the committee that

scrap and salvage should be removed and disposed of whether or not the services could find in their regular appropriations sufficient money to do the job. It was realized by a number of the people on the committee a number of years ago.

Mr. SCRIVNER. That was when Mr. Engle was chairman.

General MOORE. That is right. And they expressed this need for generating scrap iron immediately after the war.

Mr. MAHON. Mr. Engle, of Michigan, was a very energetic and able Member of the House and formerly chairman of the subcommittee and was very strong for this.

General MOORE. I should like to add that the philosophy of the Department now is exactly the same as that expressed years ago by the committee.

NEED FOR CAUTION IN DISPOSAL OF MATERIAL

Mr. MAHON. I should like to make a further comment here, if I might. Bearing in mind Sam Houston and Deaf Smith at the Battle of San Jacinto on April 21, 1836, Sam Houston had Deaf Smith burn the bridges, and it was either victory or death. I do not want to burn the bridges here because I want to say in the event there should be an emergency, and in the event some of this material has been disposed of which we later determine we desperately need, I want to be on record as having warned you to be careful about that.

Admiral ARNOLD. That is exactly the situation that came up in 1950 at the outbreak of the Korean war.

Mr. MAHON. I recall that quite well. We had quite a hassle over that, and everybody was saying—why was the military so crazy to have disposed of certain materials. Be bold, but do not be too bold.

Admiral ARNOLD. That is what often causes us to exercise some caution.

Mr. SHEPPARD. I just cannot let that comment go unchallenged. We tie into the military about their idiosyncracies from time to time, and yet we tell them to do with the right hand something but we tell them to let the left hand catch up with the right hand. If it is worthwhile, get in and do it and quit pussyfooting with it. Indecision is the greatest thing we have around here.

Mr. OSTERTAG. Mr. Secretary, in your statement and throughout this hearing, you, and the services, have responded to the results of this study, or investigation, and have agreed generally that the report of findings is well founded and there is a need for change and improvement.

VALUE OF INVESTIGATIVE REPORTS

Now you tell us that you recommend or believe a continuation of the committee staff investigation is desirable. The question occurred to me as I listened to much of the interrogation here and to your statement as to why you and the services should not be putting your own house in order. Do you have the means and the capability to do it without a shotgun at your head or an outside investigation causing it to be done. In other words, what has this committee got that you people do not have yourselves?

Mr. MCGUIRE. I think, in the first place, Mr. Ostertag, I would not say that I looked upon this report as an investigation. I think that it

was a survey of some of the problems we have. Second, I would like to say this—in my business as the head of a store I had this kind of problem. I have these problems all the time.

PROGRESS MADE BY DEFENSE PERSONNEL

Third, we do have staffs working and people working on these jobs, and I think it is evidenced by the fact that many of the areas that the staff turned up here we were making progress on. I think that your point is well taken. Sometimes I think we get so involved in some of the detail drudgeries. The advantage you have here was 18 or 27 men right on the job, I forget the number, who were highly specialized men. I do not know what their grades were, but I suspect most were supergrades and they were assigned in this field and had nothing else to do but to go through on this business. We do have a lot of that in the individual services in particular. We do a lot of it just in the course of today's business. If Admiral Arnold goes into a depot I am sure this same kind of thing goes on.

I must say this to you, I do not think we sometimes document and put together in the form of a report all of the things of necessity. I think that we should do more of this. I am concerned, very candidly, sir, with the attitude of a lot of people.

APPROVAL OF ATTITUDE OF COMMITTEE

Mr. McGuire. They have a tendency of blowing up our deficiencies. I go back to the time I was a layman in the retail business in Cleveland in 1955, and all that you heard were the bad points. Today, as a citizen of this country, I admire the approach of this committee because fundamentally we must convince and convey to the population that we have some good things in the military system, or we destroy the very basic concept for ever having it and people will get to be defeatists and say, "Well, what?"

My experience down here is that we are not all dopes, or dumbbells, and that goes for the people on the Hill and in the services, and in the civil-service area. That is why I am enthused about this report. It is not a finger-pointing operation.

This is my first experience before your committee. I am highly elated at the attitude of this committee which is one, first of all, that has an understanding of the problem. You know what you are talking about. You do not profess you know all the answers, and you are willing to listen to reason on this thing.

STUDIES AND IMPROVEMENTS MADE BY DEFENSE DEPARTMENT

Mr. Ostertag. May I say that I applaud your attitude and the spirit of the services in meeting these problems and doing something about them. I have no quarrel with that. But I am concerned with what appears to be a lack of initiative in exercising your own capabilities in doing what ought to be done anyway.

Mr. McGuire. Well, I mentioned in here this was just a study operation that we are going on. I see no reason why we should not make this a part of the record. I am told this study is probably the most intense, detailed study that has ever been made of our logistic-problem

area. Now, I think this is highly important in the light of your question. This study has been made by the services themselves and the service people. And they have come to a lot of conclusions on this thing. They have 103 areas of recommendation of things that must have action taken upon them. There is quite a difference in this study than a study that might be made at the instigation of somebody challenging something. This is where the three services got together, and I am amazed at the frankness with which they discussed this problem. You would be proud of some of the things that they do and how they approach their problem, and this is their opinion of how things ought to be done. Surprisingly enough, in many areas, these things tie in with what other people have said have to be done.

It is a little difficult, sir, when you come up and you agree it is to be done rather having somebody telling you that it has to be done. There is a lot of progress being made in this field. I take my hat off to some of the military people who are here. We have so many top-class people, Admiral Arnold working on this problem himself, devoting a considerable length of time to it, and General McNamara of the Quartermaster Corps, whom I consider also a very capable officer, as I do consider Admiral Arnold.

Perhaps Admiral Arnold likes to speak of it because he has had experience in this field in the past.

I think that I am right in saying the impression here that this study of the military services field has really gotten into some of the basic problems and things that we have to do in this area.

VALUE OF COMMITTEE HEARINGS

Mr. SCRIVNER. Sometimes outsiders can see faults better than we can see our own.

Mr. HIGGINS. May I say this. I think there is another vehicle presented here that is badly needed. That is, it brings us together to talk across the table here to get better understanding between ourselves on some of these problems. Certainly we are doing things, I hope, 24 hours a day to the best of our ability here to remedy these things, but this opportunity to come up here before you gentlemen and present our problems and try and indicate to you what we are doing is very helpful to us and forges a missing link in here. We had Congressman Hébert come over, who is interested in standardization, and see a presentation the Department of Defense made the other day on this. I know his attitude was completely changed after he saw what we were doing in this field.

If we had more opportunity to present ourselves to you folks here I am sure it would make for much greater understanding and realization of what we are trying to do in this field.

Mr. MAHON. Admiral Arnold, do you have a comment?

EFFORTS OF SERVICES TO IMPROVE SUPPLY PROGRAM

Admiral ARNOLD. Yes, sir, in response to Mr. McGuire's suggestion, we supply people——

Mr. MCGUIRE. I have not talked this over with Admiral Arnold.

Admiral ARNOLD. The supply people in the four services have been working very closely together in the last year and a half. One of the

things we have devoted ourselves to is to prevent so far as we can the purchasing of material when it is not necessary to do it, when it is available from another service. We feel that is where there is perhaps the greatest single saving to be made. We have endeavored to do that by having the service which first requires the material make inquiry to the other services first when we know that service has the material or at least carries it in stock to see whether they can furnish that particular item.

We feel this represents a very substantial area of saving and one in which we are just beginning to realize the most advantage. As I think will be obvious, those advantages will increase very much when the cataloging program and standardization program even more so has been put into effect.

Mr. NORRELL. I want to say for the record, Mr. Chairman, that this report that the investigating staff has made has been most helpful to me. Also I think the services are entitled to a great deal of credit for the fine statements that we received from you. I think that the ultimate conclusion ought to be that America will be helped and we will have a better armed services. Thank you, Mr. Chairman.

Mr. WHITTEN. I have read this report and as the record will show insisted about 3 years ago that we have this continuing investigation of the procurement policies and practices. I think since that date, though, we had a lot of trouble at the outset in getting the investigation complete, and actually getting the Secretary to read them, I think it has brought about a great improvement. I regret to say now certain governmental approaches to defense have taken away a large part of any premium that might be for proper procurement and handling of your business.

SMALL BUSINESS ADMINISTRATION

I notice the Small Business Administration has the final decision in awarding contracts in many cases. Is that not true?

Mr. SHARP. We can appeal from that.

Mr. WHITTEN. You can appeal as to the qualifications of the contractor?

Mr. MCGUIRE. May I clarify that?

Mr. WHITTEN. Yes, sir.

Mr. MCGUIRE. In the case where a contractor is given a certificate of competency issued by the Small Business Administration, small business does have the last word. I think we ought to get this in context. I had the figures here yesterday. I think it is about 152 cases of competence certificates of necessity given last year.

(The following letter from the Small Business Administration was received:)

SMALL BUSINESS ADMINISTRATION,
March 27, 1958.

Hon. CLARENCE CANNON,
Chairman, House Appropriations Committee,
Washington, D. C.

DEAR CONGRESSMAN CANNON: Part I of the draft report prepared by a defense procurement investigating team references four instances of contract awards in which the qualifications and performance of the contract recipients are questioned. In each case the award was made following a Small Business Administration certificate of competency. A policy improvement is implied with respect to the methods used by SBA in establishing a supplier's qualifications for the

performance of a contract in question. The following information is submitted in connection with each of the four cases:

Army Contract DA11–184–ENG–13963—Generator Sets, $1,575,930.24: This is a contract awarded by the Corps of Engineers to the Atlantic Manufacturing Co., Hamburg, Pa. It covered 576 generator sets of 30-kilowatt capacity. By July 1957, approximately 75 units had been delivered of a total of 576 which had been required a year earlier. Actually the SBA had no part in this award. The buyer's analysis, dated June 24, 1955, certified that the contractor's facilities were adequate and that the firm was well qualified. Our predecessor organization, the SDPA, had issued a certificate of competency on a purchase of 15-kilowatt generators in 1953. The certificate was issued on May 12, 1953, and covered a quantity of 640 diesel engine driven 15-kilowatt generator sets. The contract, after certification by SDPA, was performed with commendable thoroughness; the last four units were shipped February 8, 1955, just 4 days late. The contract totaled $1,878,361.40. Better proof of the appropriateness of issuing the certificate of competency can hardly be imagined. Whether or not the contracting officer involved in the second purchase realized it, a certificate of competency applies only to the specific contract under consideration at the time and in no way constitutes endorsement or approval for any subsequent contracts. The second contract, for 30-kilowatt generator sets, was placed without any reference to or action by SBA of any kind; the judgment of the contractor's qualifications was rendered solely by the procuring agency itself.

Army—IFD SC–36–039–57–1976–57—Meters, $75,450: This case involves a current contract that was placed as a result of a Small Business Administration certificate of competency awarded to Cooper Electronics, Inc., Philadelphia, Pa. The report cites seven adverse facts developed by the Signal Corps Contractor Evaluation Board and states, "Despite this information, an SBA certificate of competency was issued upon the contractor's application." The report is entirely correct. SBA conducted its own investigation and reached a judgment diametrically opposed to the Signal Corps Evaluation Board. That SBA's judgment had more than a little merit is borne out by the fact that the Signal Corps later, and without any reference to SBA, increased the contract 50 percent. The contract is proceeding satisfactorily and had it not been for a relatively minor specification change requested by a Signal Corps engineer after preproduction samples were ready for submission, the contract would be right on schedule. The specification change pertains to the scale accuracy of a meter. The specification covers a midscale allowable accuracy and makes no mention of fullscale accuracy. The Signal Corps field engineer has requested fullscale accuracy also. The contractor has discussed this with the Signal Corps and is, at the moment, preparing his request for a price and schedule change to accomodate the specification change. He reports that the Signal Corps field engineer, who considered the company unfavorably at the time of contract award, now views the company's qualifications very favorably and is quite satisfied with the progress on the contract. Up to now this case is an excellent illustration of the need for an objective evaluation when a low bidding small company's qualifications are questioned by a procuring agency.

Air Force Contract AF30(635)–3365—Amplifiers, $41,240: The third case for "amplifiers," totaling $41,240 was actually terminated for default. In this case, a certificate of competency was issued January 19, 1955, on behalf of the T. L. G. Electric Corp., New York, N. Y. In this instance a question of price adjustment developed. A meeting was held April 3, 1956, at which T. L. G. was instructed by Air Force representatives to proceed with the manufacture according to the contract The company was informed that the Air Force would consider a price adjustment at the completion of deliveries. However, on April 19, 1956, a letter from the adjustment branch at Dayton, Code MCPPJT, requested immediate performance or default action. T. L. G.'s reply, dated April 27, 1956, informed the contracting officer of their willingness to go ahead provided a reasonable price adjustment could be arranged in advance. On June 11, 1956, T. L. G. requested a formal finding of fact regarding price increase. About August 15, 1956, T. L. G. received a letter stating that the contract was terminated for default. At the time the file was closed, SBA understood that the Armed Services Board of Contract Appeals was to consider the case. We have no record of subsequent events.

Air Force Contract AF30(635)–6436—Transfer Panels, $2,301,277: The last case concerns the above AF contract for transfer panels, actually electrical switchgear, totaling $2,301,277. The contract was awarded to Lumen, Inc., Chicago, Ill., in response to an SBA COC. The company successfully completed

the contract and the general performance record is described best by Mr. B. F. Pfeifer, president of Lumen, Inc., when he wrote Hon. Everett M. Dirksen on November 19, 1957, as follows:

"It may interest you to know that in the performance of said contract, we were entirely on schedule for 95 percent of the contract, and in the balance were several weeks late, as is the custom at the tail-end of such a large contract.

"We would like to invite your attention and express our appreciation for the guidance and counsel of the Small Business Administration throughout the life of the contract, and more specifically for their very direct assistance at the tail-end of the contract in expediting the final components.

"From the viewpoint of a taxpayer, we think the Small Business Administration serves a very useful function in our economy, and as more small companies grow to understand the possibilities of assistance available, that this usefulness will increase a great deal. We hope that they will always be privileged to have your support."

It is difficult to understand why the four particular cases described above were selected if the attempt was made to show improper evaluation of bidders' qualifications in the Certificate of Competency program. One case had nothing whatever to do with SBA certificates of competency and two others, by the best standard there is, i. e., the contractor's actual performance, indicate that our judgment in awarding the certificates of competency was sound even though it may have differed from that of the procuring agencies. The fourth case resulted in a termination for default, but it is at least a controversial case.

We know of no better way to picture the success of the SBA Certificate of Competency program than to examine its results. As of January 31, 1958, 782 COC applications had been received and 365 had been awarded. The balance had been declined, withdrawn, or are pending (balance 417). Of the 365 COC's awarded, only 10 had been terminated for default, 224 contracts had been completed, 99 were active, 15 contracts had not as yet been awarded, and 3 contracts had been terminated for convenience of the Government. When consideration is given to the fact that COC applications are received only from rejected bidders whose qualifications were definitely considered lacking by the procurement agencies, we consider the termination of only 10 for default a most gratifying comment on the care and objectivity with which we have made our own surveys.

Should there be further detailed information of any kind pertaining to this subject, we shall welcome the opportunity of providing it.

Sincerely yours,

WENDELL B. BARNES, *Administrator.*

Mr. WHITTEN. The point is not to say I know of personal knowledge that they may have certified in improper cases. The investigator's report raises some question. The point I make, I think it is one of the most dangerous things domestically we have, defense is no longer a matter of defending your country, it is a pump-priming operation to generate prosperity.

PURPOSE OF PURCHASE OF NEW TRUCKS

You were directed to buy $100 million of new automobiles and trucks by the executive department.

Mr. HIGGINS. No, sir; that is not a true statement. That was all justified a year ago before this committee.

Mr. WHITTEN. You were directed to go ahead with your contract now.

Mr. HIGGINS. No, it was a part of the 1958 fiscal year procurement. It was just a part of our normal procurement.

Mr. WHITTEN. Do you tell me you were not directed to go ahead now with that contract?

Mr. HIGGINS. We were not directed. We just are doing our job and buying it this year.

Mr. WHITTEN. You did not get a directive from the Bureau of the Budget or the President in connection with it?

Mr. HIGGINS. No, sir.

Mr. SCRIVNER. Mr. Whitten, that was all cleared up here a couple of weeks ago and the statement was made this was part of the regular program of procurement from the 1958 funds.

Mr. WHITTEN. In the absence of any directive or order from the executive department, you would not have purchased those automobiles and trucks at the present time.

Mr. HIGGINS. It was part of the normal 1958 program.

Mr. WHITTEN. You say normal. I am asking you, would you have done it now?

Mr. HIGGINS. I am not sure I understand your question.

Mr. SHEPPARD. Repeat the question.

(The reporter read the question.)

Mr. HIGGINS. In the absence of any directive we would have gone right ahead, yes.

Mr. WHITTEN. Any claim and any letter or notice I have from the head of the Department of the Army to the effect that you had done this to promote business is in error and you have not heard of it?

Mr. HIGGINS. No, sir; I did not.

Mr. WHITTEN. I ask permission to put the statement in the record at this point.

Mr. SHEPPARD. Without objection, so ordered.

(The material referred to follows:)

ARMY ANNOUNCES $100 MILLION IN TRUCK AND TRAILER CONTRACTS

Secretary of the Army Wilber M. Brucker announced today that the Army will let contracts for approximately $100 million of its fiscal year 1958 requirements in military trucks and trailers within the next 30 days. Nearly all of this work will be placed in the States of Illinois, Indiana, Michigan, Ohio, and Pennsylvania. The placement of these contracts is being accelerated and should help to bring employment to the automotive industry.

The following truck contracts in approximate quantities are under negotiation and are scheduled for placement with the automotive manufacturing concerns listed whose facilities are capable of producing these military items for the Army:

Willys Corp., Toledo, Ohio—250 mechanical mules.

Chrysler Corp., Detroit, Mich.—3,200 ¾-ton military trucks, and 1,000 1-ton military trucks.

Utica Bend Corp., South Bend, Ind.—5,000 2½-ton military trucks.

Mack Trucks, Inc., Allentown, Pa.—32 heavy military trucks.

Competitive negotiations are now almost complete for the placement of a contract for 3,000 5-ton military trucks. Firms competing for this procurement are Diamond-T Motor Car Co., Chicago, Ill., International Harvester Co., Fort Wayne, Ind.; White Motor Co., Cleveland, Ohio; and Mack Trucks, Inc., Allentown, Pa.

The following trailers and semitrailers which closely resemble similar commercial vehicles will be procured by nationally advertised bids: 350 semitrailer gas tankers; 700 ¾-ton cargo trailers; 3,000 1½-ton cargo trailers; 75 3½-ton cable trailers; 630 2½-ton trailers, chassis.

The acceleration of this procurement, according to Secretary Brucker, accomplishes the twofold purpose of purchasing critically needed vehicles for the Army and at the same time helping to relieve the unemployment situation.

The placing of orders for such a large quantity of finished trucks and trailers will generate an immediate demand for subassemblies and component parts from hundreds of subcontractors. Its impact will quickly be felt over large parts of the country, the Secretary added.

APRIL 8, 1958.

HON. GEORGE H. MAHON,
Chairman, Subcommittee on Department of Defense Appropriations,
House of Representatives.

DEAR MR. MAHON: The Secretary of the Army has asked me to reply to your letter of March 24, 1958 in which you requested comments on the news release of March 19, 1958, entitled "Army Announces $100 Million in Truck and Trailer Contracts."

As for the implication in the news release to the effect that this particular procurement was "priming the pump," please be assured that this is not the case. The procurement referred to in the news release is an element of our regular programed requirements. The contracts cited are being awarded as a routine operation in execution of our procurement program. The procurement is not being made for the purpose of stimulating employment in any specific area or industry. It was merely an announcement that our procurement program, already in progress, was going to produce obligations of funds in the immediate future.

As for the method used in selecting companies named in the news release, the Willys Corp. is presently the sole mobilization base supplier and source for the mechanical mule. Procurement from this supplier will preclude the necessity of duplicating approximately $300,000 worth of special tools, jigs, fixtures, patterns, gages, and other manufacturing aids now in the possession of Willys Corp.

The Chrysler Corp. is the sole base producer for the ¾-ton and 1-ton military trucks. The ¾-ton truck was designed specifically for military use and only one mobilization base producer, Chrysler Corp., is available for manufacture of this type vehicle. In order to maintain this producer in an available status in the event of mobilization, it was considered to be in the Government's interest to negotiate this requirement with Chrysler Corp. Accordingly it was determined that negotiation of this item properly fell within the authority of title 10, United States Code, section 2304 (a) (16) and Armed Services Procurement Regulations 3–216. The 1-ton military truck referred to in the news release is the commercial Dodge power wagon procured for the military-aid program to fill specific requirements made by Iran, Turkey, Greece, Pakistan, and Iraq. Those countries have standardized on this vehicle in order to simplify supply and maintenance problems peculiar to their countries. Therefore, this procurement was negotiated on a sole-source basis for this type of vehicle.

The 32 heavy military trucks purchased from the Mack Trucks, Inc., were specifically requested through the military aid program by Ethiopia. Previous procurement of this type vehicle had been from Mack Trucks, Inc., and in the interest of standardization, Ethiopia requested the same vehicle. Again the negotiation was made on a sole-source basis in order to fill this particular request.

Diamond-T Motor Car Co., International Harvester Co., White Motor Co., and Mack Trucks, Inc., are base and planned mobilization producers for the 5-ton military truck. All of the aforementioned companies were solicited for proposals in order to establish maximum competition and obtain the most favorable price to the Government.

The contract with Utica Bend Corp. was negotiated in accordance with the authority contained in title 10, United States Code, section 2304 (a) (16), which authorizes negotiation when the Secretary of the Army determines it is in the interest of national defense to have a manufacturer available for furnishing property or services in case of a national emergency or when the interests of the national defense would be served by maintaining active engineering and development. For production of these trucks, it was determined that it was in the interest of national defense to place procurement with the Utica Bend Corp. in order to have this planned producer available in the event of a national emergency. Thus the mobilization base for the 2½-ton truck is being preserved and the know-how and capabilities of this facility are being retained. Moreover, in the procurement in 1956 for 5,037 2½-ton trucks, all three planned mobilization producers were solicited and each submitted a bid. The award was made to Utica Bend which submitted the lowest overall evaluated price. The subsequent procurement of similar vehicles from the Utica Bend Corp. assures continuity of production at this same manufacturing plant.

The number of vehicles from the news release justified before your committee for fiscal year 1958 compared with the number so far procured, is tabulated in inclosure 1 attached to this letter.

Thank you for your interest in this matter. I hope the information furnished will be of assistance to you.

Sincerely yours,

F. H. HIGGINS,
Assistant Secretary of the Army (Logistics).

Tabulation of trucks

Item	Number justified to Subcommittee on Department of Defense Appropriation	Quantity procured, fiscal year 1958	Quantity on this order	Remarks
1. Mechanical mule	2,400	0	264	Procurement reduced to meet fiscal year expenditure objective.
2. ¾-ton military truck	2,000	0	3,200	Change in table of organization and equipment plus high "wash out" rate of vehicles produced during the Korean war required reprograming and justification of additional vehicles to Department of Defense.
3. 1-ton military truck	0	0	1,000	Military aid program requirement.
4. 2½-ton military truck	5,000	0	5,000	Justified to Subcommittee on Department of Defense Appropriations.
5. 2½-ton military truck (modified).	0	900	0	Military aid program requirement.
6. Heavy military truck	0	0	32	Do.
7. Semitrailers, gas tankers	0	0	350	Justified in DOD in order to relieve extremely critical shortages.
8. ¾-ton cargo trailer	0	0	700	Justified to DOD in order to relieve shortage.
9. 1½-ton cargo trailer	2,899	0	3,000	101 additional vehicles justified to DOD for shortages in water purification sets.
10. 3½-ton cable trailer	159	0	75	1st increment procurement.
11. 2½-ton trailer chassis	0	0	630	600 justified to DOD for initial issue to newly activated rocket units. 30, military aid program requirements.
12. 5-ton military truck	0	629	3,000	Reorganization of Army greatly increased need for 5-ton trucks for cargo and prime movers in place of expensive high-speed tractors; 3,600 were justified to DOD in reprograming action.

Mr. SCRIVNER. The Defense Department should have an opportunity to read and respond——

Mr. WHITTEN. They have just had the opportunity.

Mr. SCRIVNER. They have not seen any letter.

Mr. SHEPPARD. Are you representing the Defense Department here?

Mr. HIGGINS. This is an Army matter. Secretary McGuire represents——

Mr. SHEPPARD. I just ask you one question.

Mr. HIGGINS. No.

Mr. SHEPPARD. You are directing your question, of course, to the representative of the Office of the Secretary of Defense.

Mr. WHITTEN. I shall ask General Moore. The budget officer is supposed to accept all responsibility here.

Mr. SHEPPARD. That is right.

Mr. WHITTEN. Was there any order from the executive department or Secretary of Defense to the effect to go ahead and place $100 million worth of orders for trucks and automobiles in recent weeks or the last few months?

General MOORE. I shall have to find out.

Mr. WHITTEN. All the publicity incident to that so far as you know is without foundation? I say so far as you know.

General MOORE. I have not kept up with that.
Mr. WHITTEN. The question is——
Mr. SHEPPARD. Do you know?
General MOORE. No, sir.

MOTOR VEHICLES SOLD AS SURPLUS

Mr. WHITTEN. I have had called to my attention in recent weeks that a new Dodge panel truck with 14 or 24 miles on it was sold for $450 as military surplus. I would like to know how many vehicles have been declared surplus, if you have those records, the models of those vehicles, and average price for which they have sold, and how many of them were new vehicles that had never been used.

Mr. SHEPPARD. Does the gentleman know which Department?

Mr. WHITTEN. I am speaking to the Defense Department.

Mr. MCGUIRE. We shall get that information from the military department, if such records are maintained. Could I clarify your question so I may make our response responsive? What you would like to have, Mr. Congressman, is tabulation of vehicles that have been sold. Do you want that tabulation over the period of the last year or within the last quarter, or how?

Mr. WHITTEN. I should like, in view of this new purchase, to be supplied with what you may do in the coming year in connection with this additional purchase. In other words, this is not an increased number that you need but——

(Note: See information contained in table on page 153.)

Mr. MCGUIRE. My understanding of the purchase, sir, is that these vehicles were in the appropriation submitted to this committee and passed and approved by this committee. In the normal course of events, these contracts would have been placed in this fiscal period.

Mr. WHITTEN. You do understand that you were told to go ahead and place contracts. You understand that?

Mr. MCGUIRE. I do not understand it in that context, sir. I should like to point out to you that I, like you and everyone else, recognize we have the responsibility of placing these orders and getting them into the hands of the manufacturers just as any normal procurement area.

It has been stated we were slow in getting them started last fall. We have quite a problem to get all of this procurement work done. We are bringing all the pressure we can to bear to be sure we get all these actions completed and completed properly.

Mr. WHITTEN. The purpose of this, I have the letter——

Mr. MCGUIRE. I do not have the letter. I am not arguing with you about it.

Mr. WHITTEN. The point I make, which has been made earlier, is while we to a degree may seem critical and our investigator's report may seem critical, that as long as the Federal Government takes the view that defense is a means of pump priming and spreading employment and spending money is a means of having prosperity, we have taken away from you much of any incentive to hold back on spending.

Mr. McGuire. I would like to give a specific indication of the policy of the Department of Defense in that matter. As you know, the chairman of this committee——

Mr. Whitten. A lot of it your policies cannot cure.

Mr. Scrivner. He should not be interrupted.

Mr. Whitten. May I not be interrupted.

Mr. Scrivner. Let the Secretary complete his answer.

Mr. Whitten. I will——

Mr. Mahon. Off the record.

(Discussion off the record.)

Mr. Mahon. Let us proceed in order.

Mr. Whitten. Would you read the question prior to the interruption?

(The pending question was read by the reporter.)

USE OF DEFENSE SPENDING AS ECONOMIC PROP

Mr. McGuire. I would like to say this, Mr. Whitten. We in Defense are very aware of this problem. In other words, you do not misuse defense funds for another purpose. I think the best thing I can say to you to clarify this and to assure you of this is the chairman of this committee made a statement on the floor of the House which we all applauded and Mr. McElroy took occasion—I have to take the liberty of putting this in the record without his permission—in his top policy council of reading Mr. Mahon's statement and pounding the table and saying, I thoroughly agree with it and I am proud to see somebody in this country stand up and recognize this facet of the thing. Mr. McElroy has reiterated to all of us over there that we are not running an econmic program here, that this is a defense program.

Mr. Whitten. My line of reasoning and my questions are directed to——

Mr. McGuire. We thoroughly agree with you.

Mr. Whitten. Is directed to a criticism of governmental policy which leaves us where if we hold down appropriations here to a degree we are stopping prosperity in the viewpoint of some of these folks.

Mr. Mahon. Will you yield a moment?

Mr. Whitten. Yes.

PROCUREMENT OF MOTOR VEHICLES

Mr. Mahon. When you get the record it might be well to put in the record a letter written to me in regard to the truck procurement problem which has been mentioned. The implication that we were buying a lot of motor vehicles as a pump-priming operation was contained in a newspaper article. I wrote the Secretary of the Army and Secretary Higgins called about the matter and submitted a statement with respect to the Army policy. I think that probably should be placed in the record. That can be determined later. You may proceed.

(The information referred to will be found on page 148.)

Mr. Whitten. I would like to know in connection with these vehicles, are you adding to the total number of vehicles which the mil-

itary has? It is my information in many areas you have them stored by the acre. Or are they to replace vehicles which will be phased out?

Mr. HIGGINS. They are the normal increments of procurement for the year 1958 for the various reasons of vehicles being discarded from the system as unusable. Some of these vehicles are for the military aid program. They are the broad Army vehicle requirement across the field.

Mr. WHITTEN. May I say it is my observation that the military—I say again the criticism I would have is of governmental policy and not of the services in this particular instance—insofar as additional vehicles, I think you need them about like you do a hole in your head. My question was: Will you phase out an equal number of vehicles or will this add to your supply?

Mr. HIGGINS. Our requirements are generated on the basis of replacement to a degree. There may be instances where the type of vehicle we are buying—understand these were scattered over a great number of models—not just 2 or 3 vehicles, 30 or 40 vehicles, some number of that magnitude involved here. There were vehicles for the military-aid program. It was our broad 1958 truck requirement that we normally buy each year and that was justified before this committee.

Mr. WHITTEN. May I ask my question over again. Will you phase out an equal number or what percentage will you phase out and how many of these are contemplated to be in addition to your supply?

Mr. HIGGINS. That is something we would have to go back and make our analysis of how we set up the requirements to answer that question.

Mr. WHITTEN. All right. If it were justified to this committee and the justifications have been heretofore prepared and heretofore submitted, it should not be any big job.

Mr. HIGGINS. It must be in the record already some place now. We can get it out.

Mr. WHITTEN. Do we have that in the record, General Moore, at this point?

General MOORE. I do not recall whether the answer to your question is in the record or not.

(The information referred to follows:)

Item	Fiscal year 1958 procurement		Justification
	Quantity	Dollars	
Mechanical Mule	264	370,000	Initial equipment for newly organized divisions.
¾-ton military truck	3,200	13,750,400	To replace wornout assets and sales to other customers (sales to military aid program, 1,252).
1-ton military truck	1,073	3,152,000	Procured for military aid program.
2½-ton military truck	5,000	37,040,000	To replace wornout assets and sales to other customers (sales to military-aid program, 4,108).
Heavy military truck	32	451,271	Procured for military aid program.
Semitrailers, gas tanker	345	2,553,000	To replace losses and relieve a critical shortage of gas tankers.
¾-ton cargo trailer	703	589,114	To replace worn out assets and sales to other customers (sales to military aid program 568).
1¼-ton cargo trailer	3,000	3,195,000	To replace worn out assets and sales to other customers (sales to military aid program, 2,300).
3½-ton cable trailer	75	188,000	Replacement vehicle.
2½-ton trailer chassis	630	838,530	600 for initial issue to newly activated rocket units; 30 procured for military aid program.
5-ton military trucks	3,000	39,900,000	To replace worn out assets and sales to other customers (sales to military aid program, 680).
Total procurement		102,027,315	

Mr. WHITTEN. I shall ask you this one. Do you ever recall that you justified request for the purchase of vehicles that you did not give the committee information as to whether it was to add to your supply or whether it was replacement? Have you not always done that?

General MOORE. That information is normally supplied.

Mr. MILLER. There is already in the record as I recollect a number of heavier trucks, needed because of the new pentomic Army organization that would not necessarily be replacements. I believe the record is pretty full of what is being bought. It is obvious if you have new needs for some of these things they will not replace anything. They will fill a new need. Are you talking about last year's justifications or this year's?

Mr. HIGGINS. They were justified last year for the 1958 fiscal year.

Mr. MILLER. The record I think will show fully the detailed items because the Army panel heard that justification and I think in the main it was for normal replacement of vehicles, replacement of vehicles no longer economical to operate because of age and long use.

Mr. WHITTEN. I appreciate that but you would not be familiar enough to say that the specific orders were in direct line with the justifications last year of your own knowledge, would you?

Mr. MILLER. I would not know what the orders have been.

DEFENSE SPENDING AS ECONOMIC PROP

Mr. WHITTEN. I want the exact information brought forward in the record. I point this out again. I am not opposed to placing orders with the automobile people to keep the industry running. I am disturbed about a recession or depression as others are. It is my belief that extra military spending or speeding up of military or use of military spending as a means of generating what some folks think is prosperity, is dangerous. I think it is ridiculous because

it is the one place that you do not get any usable goods for dollars spent. While it will temporarily cover up what is happening, in the long run I think it will pull us down in that we have spent for those things. I am talking about the excessive amount we might spend.

Mr. McGUIRE. I know of no indication of that.

Mr. WHITTEN. I think you folks would do a whale of a lot better job if Congress would leave you alone; instead our Government's policy of attempting to generate prosperity by extra spending for purposes of providing employment and giving attention to things other than defense needs.

Mr. McGUIRE. As far as I know, everything I have instructed the services where it is my responsibility and in talking with the services and with Mr. McElroy this certainly is his philosophy.

I think, however, this is obvious. I am sure you would agree. If we have a program and we decide on the basis of our valid requirements—this is not a buildup, this is something we would do anyhow—we are going to buy a hundred trucks, for example, we will buy this hundred trucks as soon as we can get the contractor in and negotiate the contract.

I am sure you would agree with me that we want to do everything we can to expedite placement of that so whatever value that has gets into the economy. This is not developing requirements for that purpose. After you decide what you want to buy, you should do everything to expedite this thing and get the benefits of it.

Mr. WHITTEN. If the benefits actually exist in the long run.

Mr. McGUIRE. I am not here to say the benefits do or do not. I am here to say this: You would be extremely critical of any of us over there if we suddenly folded up shop and stopped doing our procurement just on the basis that we can do it any time.

Mr. WHITTEN. I do not mean to needlessly prolong this.

Mr. McGUIRE. I am sure of that.

Mr. WHITTEN. If you buy earlier than you need them——

Mr. McGUIRE. We are not doing that, I can assure you. On the other hand, if we have to buy a pound of butter tomorrow morning we better get on to the business and buy it and get on to the next thing.

Mr. WHITTEN. I am anxious to have the report as to whether you are adding this to your fleet or is it replacement because it is my belief just about every other activity of Government, if you are going to buy this new amount of automobiles, would probably have more use for them than the military in view of the more adequate automobiles you have around the world, newer models with less mileage, than any other department of Government so far as my own observation is concerned.

Mr. McGUIRE. I will see to it that the Army gets that information for you.

Mr. WHITTEN. This whole thing is based on the fact I think we are off on a dangerous course when defense quits being that which is essential for our safety and becomes a means of spending money to pump prime and various other things. That again is governmental failure and not the Defense Department.

Mr. McGUIRE. One of the prominent labor union leaders sent a telegram to Mr. McElroy the other day and the essence of the telegram was this was a good time to stockpile those kinds of standard items

we might need over many years to come. My answer to him was no, we will buy those things and put our money in those things that are of the highest priority and that we have determined we have a need for now and we are not going to guesstimate what our needs might be later.

Mr. WHITTEN. I am sure you and Mr. McElroy will agree we would like for that condition to prevail which that leader wished for his union members but if you follow the course he advocates you may postpone the day but you make it 10 times worse when it comes.

Mr. MCGUIRE. That is right. In this general context this gentleman in his paper implied as a result of this telegram these trucks were placed in issue. This is not true. This thing was in the process and it just so happened that—some things do once in awhile—that timingwise his telegram was in the building about the same time this was announced. I do not take away from him the taking of the credit. That is all right if he wants it. It did not have that effect. Am I correct?

Mr. HIGGINS. Yes.

Mr. SHARP. Could I get one thing in the record?

Mr. MAHON. Yes.

INSPECTION ORGANIZATIONS OF THE SERVICE

Mr. SHARP. I want to make a statement in response to Congressman Ostertag's very appropriate comment in which he inquired as to whether or not we in the services had means of checking up on our deficiencies in addition to those deficiencies which were pointed out by the report of this committee.

I would like to state that we in the services have inspection organizations who constantly make reports to us concerning deficiencies, that we also employ outside contracting experts to investigate our activities to see if they can suggest improvements.

Mr. MAHON. We will reconvene at 2 o'clock.

(NOTE.—The committee staff investigative report, the statements of the Assistant Secretaries of the Army, Navy, and Air Force, and the detailed comments of the services on the report follow:)

A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, ON PROCUREMENT, SUPPLY, AND SURPLUS OPERATIONS, DEPARTMENT OF DEFENSE

SURVEYS AND INVESTIGATIONS STAFF JANUARY 1958

PART I. PROCUREMENT

PART II. SUPPLY
PART III. SURPLUS

PART I. PROCUREMENT

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I. INTRODUCTION

The committee directive of February 22, 1957, requested a continuation of the investigation of procurement policies and practices of the Department of Defense (DOD). The volume of DOD spending on annual new procurement ($23 billion in fiscal year 1957) is so enormous that relatively small improvements can effect substantial savings.

II. ARMED SERVICES PROCUREMENT REGULATION (ASPR) AND ITS IMPLEMENTATION

Progress has been made in overcoming the weaknesses mentioned in prior reports. However, the cost-principle study has not been completed. Guidance is needed on profit allowances for firms whose business is predominantly with the Government. The degree of ASPR implementation required at the service level continues to be a problem. Some Air Force procurement people say that too much time is spent by both the Air Force and industry trying to interpret ASPR and the Air Force implementation thereof.

III. ADVERTISED PROCUREMENT

A. General

Procurement by formal advertising to the extent practiced by the services appears to comply with the requirements and intent of law and the policies and regulations of the services, and generally, represents an acceptable standard of contracting principles.

B. Extent of advertised procurement

Contracts awarded on the basis of formal advertising account for 15.6 percent of total procurement dollars expended in fiscal year 1957.

This represents an increase of 2 percent over fiscal year 1956. Advertised contracts reviewed indicated generally acceptable standards of contracting principles.

C. Qualifications of proposed suppliers

The three services have systems of evaluating qualifications of proposed suppliers before awarding contracts. Some suppliers, who were refused contracts after being determined to be unqualified, appealed to the Small Business Administration and were issued SBA certificates of competency. Such certificates usually mean award of the contract, since the services tend to accept them without realistic resolution of contractor deficiencies which formed the basis for initial refusal. This practice has led to contract awards to several Army and Air Force contractors who have been unable to perform. Long delays and additional costs to the Government have resulted.

IV. NEGOTIATED PROCUREMENT

A. General

Negotiated procurement accounted for 84.4 percent of the dollar value of DOD new procurement for fiscal year 1957. Contrary to popular belief, not all negotiated procurement is objectionable. The services have been able to obtain the benefits of competition in many negotiated contracts. Any conclusion drawn from the cited statistics must be tempered with the knowledge that in many instances negotiation is the only feasible method of obtaining required supplies and services. The staff does not believe, however, that the present level is an optimum condition and is firmly of the view that it is possible to achieve greater use of the preferred method of formal solicitation.

Contracting officers in all three services are making too great use of ASPR 3–805. Under its provisions price negotiations can be dispensed with at discretion of the contracting officer.

B. Air Force

Review of Air Force contracts disclosed numerous instances of substandard contract operations in the negotiated procurement area. Some of the examples cited show:

1. Awarding of contracts without real competition or negotiation of price.
2. "Urgency" procurements, causing reduced competition and inadequate price analysis.
3. Lack of drawings, causing continued negotiations with the sole source.
4. Inadequate pricing data.
5. Inadequate supervision and review of contracts under $10,000.

C. Army

The Army has made practically no progress in reducing the number of negotiated procurements. Technical services continue to be plagued by inability to reduce huge backlogs of drawings which require checking before they can be utilized in procurement of equipment. The Signal Corps still has 30,000 to 40,000 such drawings on hand. Army officials attempt to justify negotiation of many contracts on the basis of inadequate specifications, although previous research and development contracts or procurements afforded opportunities to obtain such specifications.

Two large automotive-parts contracts, which are analyzed in the report, illustrate the evils associated wtih continued "sole source" procurement necessitated by failure to develop specifications.

D. Navy

Failure to get drawings and specifications forces the Navy to negotiate with sole sources, without competition. Cases reviewed indicate that negotiations are not of highest caliber, with some being influenced by the "urgency" of the actions.

V. TYPES OF CONTRACTS

A. Letter contracts

Although the three services claim that efforts are made to curtail use of letter contracts and to take definitization actions as promptly as possible, total dollar volume not definitized as at June 30, 1957, was $505 million greater than at June 30, 1956. The Navy Department appears to be particularly delinquent in taking definitization action. There were 69 Navy letter contracts pending at end of fiscal year 1957, and 57 of them were past the definitization period prescribed by ASPR. Such delay is, in many cases, a decided handicap to the Government contracting official. Available statistical data do not permit valid comparison of relative efficiency fo the three services in this area, since Air Force categorizes "billing type" contracts as definitized. This is misleading since such contracts are not always specific as to price, terms, and conditions.

B. Price redeterminable contracts

Failure to afford timely redetermination action destroys the value of price redeterminable contracts and, if the action is delayed long enough, brings about a condition similar to the illegal cost-plus-a-percentage-of-cost contracting procedure. As of June 30, 1957, DOD had 438 contracts representing $10 billion on which redetermination action was pending. According to the dates fixed by the contracts, the required action, on the average, was 1 year past due. The Quartermaster Corps is exceedingly delinquent in this area. It took an average of 3½ years more to finalize redeterminations than the prescribed Army standard allows.

C. Time and materials contracts

Time and materials (T & M) contracts require extraordinary negotiation, surveillance, and close administration, as contractors' profits are in direct relation to the hours of labor used. There is, therefore, no incentive for the contractor to reduce labor costs and time and materials contracts should be converted to more appropriate types as soon as practicable. Staff inquiry indicates that the Air Force in Europe has a tendency to continue use of time and materials contracts longer than is necessary.

VI. CONTRACT ADMINISTRATION

ASPR guidance in contract administration is too general to be effective. Implementation by the services lacks a uniform approach and is weak in some areas. Inquiry to determine why follow-up action had not been taken on a delinquent contract disclosed a complete misunderstanding of each other's responsibilities by the Navy

contracting officer and the requisitioning office. One reason for deficient administration may be the generally poor condition of Navy contract files examined. The Army has been able to correct the principal deficiencies in contract administration which were highlighted in the last staff report.

VII. CONTRACT TERMINATION

In contrast to Army and Navy regulations, Air Force procuring contracting officers do not have the authority to terminate contracts for default. They must refer recommendations for default to AMC (or AMFEA in Europe) for investigation and decision. If default is decided on, a termination contracting officer in named. In fiscal year 1957, only 1 percent of all delinquent Air Force contracts were referred to AMC for default investigation and only 60 default terminations resulted. The time-consuming procedure has caused: (1) A tendency of contracting officers to take chances that the contractor will produce and a reluctance to recommend termination for default, (2) a weakening of the contracting officers' prestige and authority in dealing with delinquent contractors, (3) an inability to effect timely termination and reprocurement action, (4) serious delays in obtaining badly needed supplies, and (5) added costs of supplies which must be paid by the Air Force.

VIII. GOVERNMENT-TO-GOVERNMENT AGREEMENTS

A. Problem areas created

Government-to-government agreements make it necessary for the United States to contract directly with host governments for supplies which they, in turn, will obtain by subcontract from the producer. Disadvantages inherent in such arrangements include delay in the original negotiation and in the resolution of difficulties which arise during contract performance. Adequate cost data are frequently not available to the United States contracting officer, and there appears to be little incentive for the host government to negotiate fully in an effort to obtain the best price possible. Additional administrative costs incident to the operations of the foreign government are incurred which, in some instances at least, appear unjustified. Authority for direct contracting with the supplies would eliminate these disadvantages.

B. "No profit" provisions

Agreements with the United Kingdom, Italy, and Spain provide that profits on the subcontracts will not accrue to the host government. The staff, however, noted several subcontracts wherein profit was allowed to firms which are wholly owned by the various governments.

IX. MISCELLANEOUS

A. Snowplows

Lack of firm specifications and delay in starting procurement action prevented timely acquisition of badly needed snowplows for use at northern Air Force bases for two successive winter seasons.

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B. Materiel requirements list and qualified products list

Inadequacies in the materiel requirements list and qualified products list (for Europe) are major factors in delays and additional costs incurred in the overhaul of United States Air Force aircraft and engines in the European theater.

C. Government-furnished property failures in Europe

The failure of the Air Force timely to provide Government-furnished property (GFP) to the contractors was the largest single factor causing delinquency of Air Force contracts in Europe.

D. Qualifications of USAFE procurement personnel

The assignment of inexperienced personnel to Air Force procurement activities has resulted in unsatisfactory performance of the procurement mission at some of the bases in the USAFE command.

E. Stabilization of tours of duty

High rates of turnover of personnel have seriously affected the efficiency of procurement operations. During the 1956 staff survey, the Army advised that action had been taken to stabilize tours of duty for military personnel in key procurement positions. The Army has not as yet reached uniform agreement as to what constitutes "key procurement positions," and it was not successful during fiscal year 1957 in achieving its stabilization goals.

F. Armed Services Board of Contract Appeals

The Board was established to provide expeditious settlement of differences between DOD and its contractors without recourse to the courts. Its effectiveness is impaired by a backlog of 1,000 cases and the fact that it requires 432 days to process the average case.

G. R. 1830 engine overhaul contract

Slow contracting action, impossible delivery schedules, and GFP failures in an Air Force engine overhaul contract in Europe resulted in a critical engine shortage and required vast expenditure of Air Force man-hours and costly airlift of engines to alleviate the situation.

GLOSSARY OF ABBREVIATIONS

ACO	Administrative contracting officer (Air Force).
AFPI	Air Force procurement instruction.
AFPRO	Air Force plant representative office.
AMA	Air Materiel Area (Air Force).
AMC	Air Materiel Command (Air Force).
AMFEA	Air Materiel Forces, European Area (Air Force).
APD	Air Procurement District (Air Force).
APP	Army Procurement Procedure.
ARDC	Air Research and Development Command (Air Force).
ASO	Aviation Supply Office (Navy).
ASPR	Armed Services Procurement Regulation.
CPCC	Cost-plus-a-percentage-of-cost.
CPFF	Cost-plus-fixed-fee.
DOD	Department of Defense.
GFP	Government-furnished property.

IFB	Invitation for bids.
INSMAT	Material Inspection Service (Navy).
MAP	Military assistance program.
MRL	Materiel requirements list.
NPD	Navy procurement directives.
OICC	Officer in charge of construction (Navy).
QPL	Qualified products list.
RFP	Request for proposals.
SBA	Small Business Administration.
SBAC	Society of British Aircraft Constructors.
SETAF	Southern European Task Force, United States Army.
T&M	Time and materials.
TCSMC	Transportation Corps Supply Maintenance Command (Army).
USAFE	United States Air Force, Europe.
VEA	Vehicle engineering analysis.

I. Introduction

The Committee on Appropriations under date of February 22, 1957, directed the surveys and investigations staff to continue the inquiry into procurement policies and practices of the Department of Defense (DOD) initially authorized by committee directive of April 4, 1955. Reports on this matter were submitted by the staff under dates of January 4, 1956, and January 20, 1957.

While the current inquiry covers, in general, a continuation of the 1955 directive, the committee increased the scope of the assignment to include:

(1) Methods (and effectiveness thereof) used in determining unit costs and quantitative requirements for end items and for spare parts.

(2) Efficiency in operations of domestic and overseas supply services.

(3) Factors which cause generation of surplus property and efficiency of disposal of such surplus property.

(4) Nature and extent of corrective measures taken to improve efficiency in contract operations.

The scope of the directive was sufficiently broad that almost any time period ranging from weeks to years could have been allocated for the prosecution of the inquiry. Considering the vastness of the procurement, supply, and surplus programs of the DOD, it was believed that a more useful report to the committee could be prepared by defining the scope to be compatible with the time available.

Unfortunately, some areas have not been as fully explored as might be desirable. These include offshore procurement matters, local pur-

chase programs, procurements in connection with military construction projects, and problems associated with the generation and disposal of contractors' surplus equipment.

Some interested persons have expressed the view in past years that the staff reports were devoted largely to an analysis of individual procurements and have been silent in regard to overall efficiency or lack thereof. It seems obvious that reviews such as the present one cannot result in complete endorsement of the programs of the services. Equally important, the staff findings should not constitute the basis for condemning operations as a whole.

In the current study, major emphasis has been placed upon reporting broad areas where improvements are most likely to result in substantial savings or to most effectively promote better management. Even though it be assumed that in fulfilling its broad mission the Military Establishment is performing effectively, it does not follow that there is no room for improvement.

The cooperation afforded the staff by the services throughout the inquiry was excellent. The only exception is that the Office of the Quartermaster General still insists upon having legislative liaison representatives waste their time participating in the staff's inquiries. No one has ever explained to this staff why Quartermaster personnel needs the services of a lawyer while being interviewed by staff representatives.

In the interest of making the findings as useful as possible, the report has been presented in 3 parts—1 devoted to each of the major phases of the survey. Data relating to the requirements phase of the study is included in part III, the supply section of the report. Operations of the DOD in the fields of procurement, supply, and surplus are so closely related that it has been impossible to cover any one of them without, to some extent, touching upon the others. There is, therefore, a certain amount of unavoidable duplication in the text devoted to each of the subjects.

In conducting the inquiry into the procurement phase of the directive, the staff interviewed appropriate officials of the Office of the Secretary of Defense as well as of the Departments of the Army, Navy, and Air Force. At various field levels carrying out the procurement process, interview were had with contracting officers, administrative contracting officers, production specialists, and officials supervising and reviewing such procurement functions. A representative number of contract actions were reviewed for the purpose of determining the effectiveness of DOD policy and procedures and the extent of compliance therewith. Statistical data and other reports bearing on procurement compiled by the services as management tools were analyzed to determine problem areas needing attention.

In addition to determining existing areas of difficulty wherein the necessity for improvement or change is manifest, inquiry was also made as to the nature and extent of the measures taken to strengthen the areas of weaknesses pointed out in the last report, on which the Department's comments on that report noted that corrective action would be taken. Improvement in most of these areas has been slow, but continuous. However, no readily measurable progress has been observed in (1) cost principles governing price redetermination contracting, and (2) subcontracting policies.

In its review of the procurement activities, the staff recognized many of the problems and difficulties confronting the Department, the principal of which appeared to be the extreme program and planning versatility required in maintaining modernity in defense concepts and in keeping pace with realized interests in world affairs. While such factors did not sway the staff's findings in any major degree, it is believed that sufficient consideration was given to these circumstances to make this report constructively critical. The magnitude of the annual DOD spending for new procurement (about $23 billion for fiscal year 1957) points up unmistakably that the potential for achieving real dollar savings through increased effectiveness in this area is virtually unlimited. For example, and with no intention of endeavoring to oversimplify an admittedly complex problem, an increase in effectiveness in fiscal year 1957 resulting in a 1 percent reduction in prices paid is worth in round numbers $230 million. Clearly, then, this is an area in which a real dollar savings can be achieved from increased management attention from the highest policymaking levels down through the working organization.

The significant findings regarding procurement are presented in this report. These data have been organized into areas in which the deficiencies found form a pattern believed to extend throughout the entire DOD or, in a limited number of instances, within 1 or more of the 3 services.

II. Armed Services Procurement Regulation and Its Implementation

A. ARMED SERVICES PROCUREMENT REGULATION

The armed services procurement regulation (ASPR) comprises the basic procurement policies and procedures of the DOD. Using these basic policies as the broad guidelines, each of the three services (and bureaus within some of the services) issues working procedures in procurement manuals. Procurement officers must, accordingly, be familiar with and utilize not only ASPR but the appropriate service, bureau, and other manuals of implementation as well.

Previous staff reports have directed attention to problem areas in this field and have made specific recommendations to correct a number of cited deficiencies. The ASPR committee within DOD has made studies in organizing the mass of regulatory material and in rectifying some of the weaknesses mentioned in earlier reports. For example, ASPR revision No. 19, dated February 1, 1957, prescribes price negotiation policies and techniques in the area pointed out in the last staff report. This included resolution of the procurement-audit controversy by placing ultimate responsibility for the securing and use of audit data with the contracting officer. Also, subsequent to the last staff report, a release of ASPR (3–808.5) sets out current DOD policy on subcontracting while ASPR 7–203.8 prescribes clauses pertaining to subcontracting activities under cost reimbursement contracts.

Another area of weakness previously noted by the staff was the lack of uniform cost principles for guidance of contracting officers in the negotiation of fixed-price contracts. Issuance by DOD of such cost principles has not yet been accomplished, although the Assistant

Secretary of Defense (Supply and Logistics), in commenting on the 1957 staff report, again gave assurance that every effort would be exerted to complete this work in the immediate future. It is understood that a special task force has been constituted within DOD to work not only on this issuance but to review and revise the cost-plus-fixed-fee (CPFF) cost principles presently in effect. Many of the specific cases used as examples of contracting deficiencies elsewhere in this report indicate clearly the extent to which lack of sound cost principles uniformly and intelligently applied has cost the taxpayers sizable sums of money. The staff urges that DOD afford this task force maximum support to the end so that the badly needed uniform principles can be made available with the least possible additional delay.

One other area rather closely related to cost principles in which lack of uniform DOD-wide policy guidance has been noted is the profit to be allowed in negotiated contracts with contractors whose work is predominantly for the Government.

It is recognized that, in a free economy such as ours, all industry doing business with the Government is entitled to earn a reasonable profit. In formally advertised procurements, competition ordinarily assures that the amount of profit is reasonable. In negotiated procurements, particularly in those cases in which the company's business is primarily Government and in which no effective price competition can be secured (this is especially true in the aircraft and shipbuilding industries), it is admittedly not easy to determine the profit which should properly be allowed.

When a company does predominantly private commercial work, its average profit on such work provides a realistic ceiling, to be appropriately adjusted through consideration of such factors as degree of risk and the extent of Government assistance in the form of facilities or finances.

When the company's business is predominantly Government, this standard is not available and the profit allowance in any given case ordinarily depends on the ability of the Government negotiators to withstand the company's demands. These demands are most often for not less than the best arrangement it has previously been able to negotiate with any branch of the Government, and oftentimes they are higher.

The staff feels quite strongly that this is an area in which the DOD should lay down a policy sufficiently specific so that minimum differences in application by contracting officers would be possible. Such an accomplishment should notably reduce the number of tax dollars required to be expended, and would also insure to a much greater extent, than is now the case, the equality of treatment of firms in their dealings with the Government.

B. IMPLEMENTATION OF ARMED SERVICES PROCUREMENT REGULATION

It is recognized that implementation at service and lower levels will continue to be needed if all aspects of procurement are to be adequately covered. However, the less implementation required at these levels, the greater will be the standardization achieved in procurement practices.

The services are commended for having developed aids, such as indexes and reference graphs, that have been useful in bringing together multiple references dealing with a common subject. There is little doubt that the maze of procurement instructions that purchasing people must wade through should be further consolidated and reduced.

The Air Force implementation of ASPR is the Air Force procurement instruction (AFPI). In the Air Force offices visited, procurement people have had one common concern—that "too much time is spent by both the Air Force and industry trying to interpret ASPR and AFPI." An example of the lack of clarity occurs in AFPI 1-453(j) which reads in part:

> In the exercise of delegated authority, a person may ratify the act of another which, when done and when ratified, the person might have done himself and which, when done, the other might have been authorized to do.

Furthermore, variation between ASPR and Air Force instructions can result in additional confusion and misunderstanding. Page 20 of Air Force procurement circular 12 (AFPC–12)—released as a circular prior to an AFPI revision—states that—

> the term "billing price" means the stated prices which the contractor may receive upon delivery of any article or completion of services pending final revision.

ASPR 3–403.4 (a) (3) states:

> The purpose of a billing price is to establish an interim basis for payment. The billing price may be adjusted within the *ceiling* limits * * *. [Italic supplied.]

Since a billing price had been established for one of the contracts examined in which ceiling limits had not been fixed (which in itself is an unsound procurement practice), the staff questioned the omission and was informed that authority for its exclusion was based on AFPC–12. Discrepancies such as reflected by the above references to ASPR and AFPC are confusing to those for whom the instructions are given and should be reconciled.

Navy implementation at the departmental level is effected by issuance of Navy procurement directives (NPD) keyed to ASPR. These, together with the Bureau of Supplies and Accounts Manual, are the primary procurement guides though several other manuals and handbooks contain instructions relating to the field of procurement. An index released by the Office of Naval Material is a timesaving aid in bringing together various procurement references pertaining to a common subject.

The same general policy of implementing basic ASPR policy is followed in the Army as in the other two services. Considerable effort has been exerted to strengthen certain portions of the Army procurement procedure (APP) which is the Army implementation of ASPR. It is evident that the time and effort has been effectively spent, although APP is not yet complete in all respects.

Change No. 35 of APP dated August 8, 1957, establishes general guidelines as to documentation required in purchase transactions and organization and maintaining contract files. While the instructions could be more specific with respect to actual filing methods—so as to insure uniformity among the technical services—the release is generally good and appears to take care of deficiencies noted in the staff's last report.

III. Advertised Procurement

A. General

As a practical approach to the study of any large procurement activity, the first consideration is usually an analysis of procurement methods in their order of preference. In governmental activity such as the DOD, procurement through solicitation of sealed bids and award of contracts (commonly known as formal advertising), aside from the intent of law, is necessarily preferable from the standpoint that, through free competition, it affords the best prices, terms, and contractual relationships obtainable and also more nearly places all suppliers on an equal basis. Accordingly, the staff, this year as in previous years, has devoted proportionate time to a study of both the extent and methods of the use of this type of procurement and the reasons for its nonuse. The consensus of staff findings in this regard, as applicable to each of the services, is as follows:

Procurement by formal advertising to the extent practiced by all three military services of the DOD appears to comply with the requirements and intent of law and the policies and regulations of the services, and, generally, represents an acceptable standard of contracting principles.

B. Extent of Advertised Procurement

By percentage comparison with negotiated procurement (within the United States), the formally advertised method runs a poor second. According to 1957 fiscal year statistics made available to the staff, only 15.6 percent of total procurement dollars expended were by formal advertising. Low as this appears, it is, nevertheless, a 2-percent increase over fiscal year 1956 and, to that extent, does constitute a step forward. Analyzed by services, the percentages of formally advertised procurement by dollars are: Army, 30 percent; Navy, 18 percent; Air Force, 5.5 percent. These represent an increase of 4 percent for the Navy and 2 percent for the Air Force, with the Army remaining constant. Because of an anticipated stabilization of the procurement program, the staff was disappointed that there was not a somewhat greater increase in the use of formally advertised procurement than is reflected in the foregoing figures.

In the interest of presenting an accurate analysis of this problem, and in fairness to the efforts of the services, it appears only proper to point out that the cold statement of percentages reflected by the above statistics, although factual, does not take into consideration the many areas of almost necessarily dictatorial judgment in favor of negotiation that is required in application of permissive exceptions under the Armed Services Procurement Act. This class of exception includes determinations as to the economy of negotiation in instances of small purchases; the feasibility of formal advertising in purchase of perishable subsistence where day-to-day market changes are involved; the impossibility of solicitation in maintaining planned producers under the industrial mobilization program; and the impracticality of formal solicitation in instances of developmental work, complex weapons systems, patented processes or products, and so forth.

Total procurement involved in this type of permissive judgment

area, which in actuality permits little consideration in favor of formal advertising, accounts for a large percentage of money expended through negotiation by DOD and, if applied to lessen the area of concern, would result in a lower percentage of questionable actions. As pointed out in the section of this reported captioned "Negotiated Procurement," the fact that DOD has contrived in many instances of less dictatorial types of negotiated procurement to obtain the benefit of available competition also contradicts to some degree the popular concept that negotiation, as such, is a totally undesirable and unsatisfactory means of obtaining supplies and services. Unfortunately, the contract reporting system of the Department does not make readily available the dollar amounts for the various types of negotiated procurement just referred to, so it has not proved possible for the staff to make the calculations necessary to adjust the percentage to reflect these conditions. It would be of some value in any analysis of advertised versus negotiated procurement to have available a breakdown of the total "negotiated" dollars by "competitive" and "single source" type of actions, and the Department may want to consider the advantage of providing for such categories.

As subsequently pointed out, none of the considerations or conclusions given above should be construed as evidence of an optimum condition or one which offers little opportunity of further improvement. The staff is firmly of the opinion that efforts to utilize to a greater extent the preferred method of formal solicitation or to generally improve methods, techniques, and regulations should be continued at as high a level as possible.

In addition to eliminating the necessity for negotiation through study and work in the most offending field of "lack of plans and specifications" (see discussion under section captioned "Negotiated Procurement"), a more careful consideration of the selection and approval of procurement sources, with greater cognizance being given to past performance of proposed suppliers, would be of benefit in eliminating poor contractor performance and in some cases resultant default actions. Further examination and improvement of policy and practice relating to delivery schedule enforcement in instances of declining need should be made. Consolidation of requirements prior to reaching the purchase level, consistent selection of the most advantageous type of contract, and a more sympathetic consideration by headquarters of field problems and recommendations would improve the procurement process. Some of these, as well as other improvement areas, being applicable also to other procurement problems, are discussed for purposes of convenience in subsequent portions of this report; conversely, the areas selected for presentation here are also applicable to both advertised and negotiated procurement methods and should be so considered.

C. QUALIFICATIONS OF PROPOSED SUPPLIERS

1. Case Examples

One of the major areas indicative of need for policy improvement is that of qualifications of proposed suppliers. Because this matter involves so many facets of procurement, and to illustrate some of the

matters mentioned above, the following examples, believed generally representative of those existing among the three services, are offered:

ARMY CONTRACT DA11–184–ENG–13963

Generator sets, $1,575,930.24

In June 1955 the Corps of Engineers solicited proposals (restricted in accordance with procedures laid down by the Small Business Administration (SBA) to participation of small-business firms) for 30-kilowatt generator sets. The low bidder was a small-business firm which during the previous 2 years had received various Army contrracts. Although an evaluation of the contractor's capabilities at the time of the firm's original award (PO 29–5942–29) was unfavorable and the award had been based on the issuance of a Small Business Administration certificate of competency, a reevaluation of the same capabilities with reference to the current proposal was favorable, and the contract was awarded on June 29, 1955, with an agreed-upon delivery schedule beginning in October 1955 and with completion in June 1956. The buyer's analysis (dated June 24, 1955), in support of the award, certified that the contractor's facilities were adequate and that the firm was well qualified to produce. The bidder had reduced his price from an initial unsuccessful proposal submitted several months previously for the same item and quantity by approximately 10 percent. In addition, the file disclosed what appeared to the examiner to be a wholly unrealistic cost breakdown which included factory overhead at 3.82 percent of labor, general and administrative expense of 3.2 percent, and profit of 3.79 percent—factors which, coupled with the bidder's initial reduction in bid price of 10 percent on a $1,600,000 firm-price order, gave an impression of irresponsible computation and disregard of consequence.

Less than 4 months from the date of award the Army Engineers' Inspection Division recommended that default action be commenced because of the very apparent inability of the contractor to produce. Two weeks later default action was again recommended. This was followed by letters of warning and termination of a previously awarded contract assessing costs in excess of $47,000 (the collection of which was deferred to assist financial condition). One year later, during which more warnings had been forwarded to the contractor, the Corps of Engineers permitted the contract to be assigned to an associated company comprised of almost identical management and utilizing in general the same facilities and personnel, and the contract was amended to permit progress payments. Over 500 units of a total contract quantity of 576 were then delinquent, and still no action for default or for reprocurement of the required items was taken.

A short time later a creditors' operating committee was formed. It represented 185 creditors to whom the contractor owed $418,000. Several months later an application was made by the contractor for relief under the First War Powers Act. This request was granted, with a resulting price increase of $275,000 (subject to redetermination of costs). Further difficulty included loss of factory building, temporary shutdown, and change of f. o. b. point. As of July 1957, approximately 75 units had been delivered of the total of 576 which had been required a year earlier.

The instance cited above well illustrates the difficulties inherent in incomplete or inaccurate analysis of a contractor's capabilities and the resulting unfortunate situation in which both the Government and the contractor are placed when a contractor is awarded a job beyond his capabilities and then allowed to continue until financial disaster forces his withdrawal. In this case ample warnings were available for the guidance of the procurement service from the time the contractor's proposal was submitted through the entire history of the contract.

ARMY—IFB SC-36-039-57-1976-56

Meters, $75,450

In April 1957 a Signal Corps contractor evaluation board, in evaluating the capabilities of suppliers bidding on the manufacture of meters, determined that the low bidder (a small-business concern) was not capable of satisfactory performance under the proposed contract because of lack of technical ability, performance capabilities, and financial resources. In support of this finding, Signal Corps representatives had visited the proposed contractor's plant and had placed in the record the following information:

(*a*) The supplier had no previous experience in this type of manufacture.

(*b*) The supplier did not have the required test equipment.

(*c*) The supplier had insufficient knowledge of the technical aspects and requirements of the job.

(*d*) The supplier had no qualified engineers, and did not intend to obtain any for the proposed work. (The president of the firm was the only graduate engineer on the payroll.)

(*e*) The supplier had an entirely unsatisfactory financial position.

(*f*) The past performance was extremely poor, even on simple items. Supplier was currently 15 months delinquent on one Signal Corps order and 8 months delinquent on another. Default action had been initiated.

(*g*) Because of these deficiencies, the Signal Corps proposed to award the contract to a satisfactory second-low bidder, also a small-business firm, whose bid was approximately one-half of 1 percent higher.

Despite this information, an SBA certificate of competency was issued upon the contractor's application. Although the contracting officer recommended an immediate appeal, the local Signal Corps authorities, after considering the case, and in light of previous experience in similar instances, determined not to make formal protest to higher staff levels (Washington) as it would "serve no useful purpose" and the contract was accordingly awarded.

AIR FORCE CONTRACT AF30(635)-3365

Amplifiers, $41,240

In considering proposals for an urgent requirement for amplifiers, the facility advisory board of an Air Force depot recommended denial of award to a firm on the basis of inadequate financing, heavy indebtedness, and costly methods of production. This recommendation was subsequently overruled by the Small Business Administration,

resulting in the issuance of a certificate of competency. The outcome was that the contract was awarded on February 4, 1955, to a firm whose deficiencies the Air Force had well documented. The contract provided for delivery to begin 90 days thereafter.

Eighteen months later (August 6, 1956) the contractor had not started to produce, and steps were taken to terminate the contract for default. As of the date of the staff examination (June 1957), appeal by the contractor from the default action was still pending in the Armed Services Board of Contract Appeals and the supplies had been repurchased at a price of $94,610, or $53,370 more than the original contract.

AIR FORCE CONTRACT AF30(635)-6436

Transfer panels, $2,301,277

A facility capability report, evaluating the capability of a contractor being considered for the subject work, reported the firm unsatisfactory from the standpoint of inadequate technical manpower, supervision, and facilities. The contractor had just recently organized, and his entire staff was reported to consist of 4 persons. A minimum of 65 persons was considered essential for contract performance. This disqualification was rejected by the Small Business Administration through their issuance of a certificate of competency, and the contract was awarded on August 8, 1956. Although some difficulty was experienced in getting the contract underway, an Air Force spokesman advised that "with extraordinary surveillance, the contractor is producing."

The above cases illustrate the aforementioned need for closer coordination and working relationships between Government agencies, as well as greater staff consideration of field problems. In connection with these examples, as well as others, it is only proper to point out that the armed services' desire and efforts to comply with Small Business Administration regulations were quite evident throughout the period of examination and in all documentation reviewed. Indeed, in some instances, the extent of compliance appeared to be carried beyond reasonable intentions of legislation and, as is evident from the cases summarized above, has resulted in contractual awards which are not in the best interest of the Government.

2. CONTRACTOR EVALUATION

To understand the staff's concern in these matters, it is necessary to review the armed services' general process of contractor evaluation prior to award of any major production contract.

A contractor evaluation board or its equivalent, usually established at field level, makes preaward evaluations of the capability of firms submitting proposals on major requirements. The members of this board or committee develop information within their respective fields from all sources available, including records of previous performance, visits to the contractor's plant, financial ratings, and so forth. From this type of review, findings are made as to the qualifications of the contractor, and recommendations are submitted to the contracting office as to his acceptance or rejection. Examination of support data which resulted in a recommendation for disqualification usually evidenced the extreme care with which these evaluations are made and ap-

peared to support such decisions with factual reasoning after thorough investigation. Disqualifications applicable to small-business concerns are subject to appeal by the firms concerned to the Small Business Administration for issuance of a certificate of competency. Such certificates are usually tantamount to contractual award, as no formal appeal is ordinarily made by the service. In certain cases, where a preponderance of evidence indicated that the proposed contractor was extremely deficient in many areas of performance, the local procurement office would appeal to the staff office of higher authority (Washington) for support of their position and the filing of an official protest against such action. In each of such cases examined, however, the staff office indicated that no further action would be taken and recommended that the contract be awarded to the holder of the certificate of competency. In no instance did evidence indicate more than perfunctory acknowledgment by Washington of the facts presented. Certificates were issued, and contracts were accordingly awarded to firms which, according to the inspection findings, were not qualified to perform the required work. In one case studied, but not reported above, acceptable performance on a contract by a "small" business firm was accomplished primarily because of subcontracting almost all the entire job to a "big" business. In addition, the attitude of the services, as soon as such awards became inevitable, was generally as helpful to the contractor as possible, on the premise that it was necessary to make the best of a bad arrangement.

The results of such emphasis on performance of current contracts, however, is unfavorably reflected on contracts previously placed with such contractors which were under production at the time of issuance of the certificate of competency. In many such cases, the contractor, having limited capabilities, utilized the majority of his facilities and energies on the contract covered by a certificate of competency, which action necessarily resulted in unsatisfactory performance on previously awarded contracts.

The questions raised in this portion of the report involve interpretation of SBA regulations, the degree of desired compliance, and an understanding of mutual problems between agencies, all of which are basically policy matters. Their satisfactory solution will require the careful consideration and cooperation of both the armed services and the Small Business Administration. We believe that the principal points of consideration and adjustment are in the following conclusions:

(*a*) At considerable expense and effort on the part of those considered to be qualified experts, the armed services evaluate capabilities of proposed contractors and conclude that a given firm is not qualified to perform specified work and, therefore, a contract awarded in contravention of such findings would not be in the best interest of the Government.

(*b*) The SBA, presumably with equally capable experts but without any responsibility for the program, reaches an opposite conclusion and issues a certificate of competency, which nullifies the findings of the armed services. In the absence of means for an effective appeal, this is tantamount to dictating award.

(*c*) No provision is made for realistic resolution of such controversial findings.

(*d*) Judging from the cases examined, the armed services, either at the staff level (Washington) fail to support the findings of procurement officers through presentation of facts to and obtaining relief from the proper SBA authority, or the procurement officers, through recognition of the outcome of previous actions, accept SBA certificates of competency without reference to higher authority and award a contract to a bidder who, in their opinion, is not qualified to perform the required work.

IV. Negotiated Procurement

A. GENERAL

Much has been said in the past regarding the undesirable preponderance of "negotiated" over "advertised" procurement in the DOD. Although many changes have been noted, some of which are definite improvements, the ratio of negotiated to advertised procurement in fiscal year 1957 has been reduced very little, as 84.4 percent of the money spent was by negotiation.

This portion of the report deals primarily with negotiated procurement. Areas where improvement has been achieved are noted, as well as those where it is felt deficiencies still exist. There are included, also, certain case summaries pointing out continued use of negotiation under circumstances in which advertising would appear to have been more practical.

ASPR 3–805 (a) provides, in part:

> There are certain instances where, despite the existence of conditions which required procurement by negotiation (ASPR 3–102), adequate competition is obtained and the low price or prices are determined to be fair and reasonable. In such instances, award may be made without further negotiation as to price to that responsible firm submitting the proposal which is most advantageous to the Government.

Throughout the DOD, the use of the above regulation has been growing by leaps and bounds. It offers a ready mechanism for sidestepping proper negotiation. As availability of competition increases, this method of procurement likewise increases, primarily because it offers the protection of competition although without public opening of bids. It permits the contracting officer to determine secretly the low responsive proposals and, if he so desires, negotiate secretly with that bidder or those bidders or to make the award without any negotiation whatsoever. The "request for proposals" (RFP) form clearly leaves it to the contracting officer as to whether further negotiations will take place after proposals are opened. The word "further" is misleading in that the mere opening of proposals could not, by any stretch of the imagination, constitute "negotiation." What the language means to those bidding is, likewise, by no means clear. In any event, it appears to be a reasonable conclusion that those submitting price proposals under these conditions include some amount in the price which they expect the contracting officer will attempt to negotiate out and which they are, in fact, prepared to eliminate. Failure of the contracting officer to negotiate in such circumstances can have only one result—more has been paid than would have been necessary under a properly

handled procurement by either negotiation or formal advertising. The language on the RFP form should be rephrased so that those submitting proposals will clearly understand the action which will be taken thereafter.

In most of the cases reviewed which fall in this category, proposals had been received from 2 to as many as 9 bidders and an award had been made to the lowest responsive bidder without any negotiation. In most cases, section 2304 (a) (10) of the Armed Services Procurement Act was the authority cited for negotiation (impractical to obtain competition).

Officials and contracting officers interviewed in each location visited agreed that this method is being used more and more as competitive capability increases. Asked by the staff why negotiation did not take place when the RFP implied that it would, stock answers were:

1. Sufficient competition was obtained to assure proper prices.
2. No exceptions were taken to the specifications.
3. Prices compared favorably with past purchases.
4. Negotiation would turn it into a public auction.

Asked why these cases were not advertised, the stock answers were:

1. These are areas where it is considered impossible to draft specifications for formal advertising.
2. If these cases were opened to all bidders requesting "Invitation for Bids" (IFB) or taking them from a public bulletin board or small business synopsis, awards could never be made following the present procedure for advertising.
3. We want to get competition, but from a select group of suppliers who can understand the inadequate specifications.

Lack of specifications suitable for formal advertising cannot be a valid reason for not so doing, since in all such cases the specifications on which price proposals are submitted, whatever their shortcomings in any individual case might be, have been sufficient for use without change in the contracts resulting from the negotiated procurement. This must be true since this staff, at this point, is discussing cases where no negotiation takes place. Even, in any case where formal advertising with such specifications was attempted, should a bidder question any part of the specification, it is normally readily possible to resolve the question and satisfy all prospective bidders through issuance of an addendum to the invitation. As a matter of fact, such procedure is an accepted practice in formal advertising. As to the extent of solicitation in these circumstances, this appears to be the responsibility of the contracting officer, who ordinarily should have little difficulty in determining what is necessary and proper in any given case. On this point, ASPR (2-202) provides that—

> bids shall be solicited * * * to the extent deemed necessary by the contracting officer in order to assure full and free competition.

Since this type of procurement is neither fish nor fowl, that is, advertised (in the accepted sense) or negotiated (discussion or bargaining), it is misleading, misunderstood by the public, and its use should be discontinued. In any case where the specification is good enough for use without change in a contract, it is submitted that it is good enough for use in formal advertising.

B. AIR FORCE

The following paragraphs relate to negotiated procurement as observed in the Air Force:

An Air Force procurement official offered the following case as an example of competitive negotiation where actual negotiation took place. Two proposals were received in response to a standard RFP form. Before award could be made, the higher bidder wrote the contracting officer stating that an error had been made and reduced his price to the equal of the low bidder. The contracting officer wrote to the low bidder stating that the other bidder had made an error in his original proposal and had reduced the price so that the two bids were now equal. The low bidder replied, "We also made an error, our price is reduced to $17.75 each." He was awarded the contract. The standard of negotiation exemplified in this case is certainly below that which should be expected from qualified procurement officers.

Contract AF 34(601)–4026, covering spare parts for certain powerplants, was cited by the Air Force as being in the category of "competitive negotiation." It was awarded to the manufacturer in the amount of $353,701. The specifications were the part numbers of the manufacturer; no other description was included. Although 3 other firms were invited to submit proposals, only 1 was received, that being the manufacturer's. No negotiation whatsoever took place. The contract was awarded on the prices submitted in the proposal. The fact that proposals were requested from more than one source does not place the procurement in the "competitive" area. It is sole source procurement and should be treated as such. Negotiation based on good pricing information should be a part of any such procurement of this magnitude in order to achieve any possible savings to the Government.

On November 9, 1956, an "URGENT" purchase request was initiated at the Air Force Headquarters at Wiesbaden, Germany, for a quantity of items needed in connection with power units for ground-handling equipment. The urgency was based on statements of the 17th Air Force that the lack of the items constituted "an operational hazard" and "a problem in flying safety." It was indicated that diesel equipment would have to be used until the needed items became available. Although the using agency requested delivery by January 1957, it was realized that date could not possibly be attained, so the purchase request specified delivery in June, July, and August 1957. In order to expedite this procurement, the RFP issued on November 14, 1956, set December 3 as the last date proposals could be received. Of a total of 38 RFP's, only 4 manufacturers submitted responsive proposals. Of significance is the fact that eight manufacturers advised they were unable to submit proposals because the closing date of December 3 did not give them enough time to prepare the proposals.

It is admittedly impossible to tell whether the Air Force would have received better proposals from any of these eight manufacturers; but, if so, it would have avoided the considerable trouble encountered with the contractor to whom the award was made. The administrative contracting officer reported that the contractor would not

be able to deliver in accordance with the contract schedule and attributed the trouble to the contractor's uncooperative attitude and lack of planning. After numerous efforts to expedite production and get the contractor in a position to meet deliveries rescheduled for September 1957, the administrative contracting officer recommended termination of the contract for default. Default action was turned down on the basis that the requirement was still firm, and it had not been demonstrated that the contractor was entirely incapable of producing. In addition, it was decided to revise delivery schedules, preferably to begin after January 1, 1958, for the convenience of the Government. Shortage of funds made the Air Force reverse its position from wanting to rush deliveries to wanting to delay deliveries. Although the requirements were still firm in August 1957, the command was still using the diesel equipment. There was nothing in the record to indicate that either operational hazards or flying safety problems had resulted.

On April 15, 1955, an Air Force procurement official wrote his superior officer:

> 1. There are many unpatented items being repetitively purchased that are categorized as "sole source" purchases. These items are covered by manufacturers' drawings, but no Air Force drawings are available for competitive bidding and broadening our sources of supply.
>
> 2. There are many reasons stated why this situation prevails, the principal one being that time and engineering personnel has precluded the development of USAF drawings and specifications and has dictated the successive purchases of required parts from one source. As far as is known, no effort is being made, at any level, to break this jam.
>
> 3. This AMA, for instance, has over a several months' period purchased hydraulic pumps and solenoid valves from Vickers, Inc. Neither of these items are of an exceedingly great difficulty to manufacture. There are many firms that would give proposals on many items if we could tell them what we want. It is not known if this sole-source situation is officially condoned by the Air Force for good and valid reasons, if there is actually a shortage of engineering personnel to develop specifications, or if there is any movement afoot to comply with the small-business program, in spirit as well as letter, by allowing other manufacturers to offer their assistance.

Staff review of the files disclosed, and Air Force officials confirmed, that nothing has been done to correct this situation. The conditions cited in the above letter still prevail.

Sole-source procurement is exemplified in many contracts reviewed, one of which is contract AF 34(601)-3959 for military airplane commodes in the amount of $35,758.90. This item is not much more than two galvanized buckets, one inside the other, with a toilet seat. Yet, the Air Force has no specifications for use in the solicitation of competitive bids.

Year after year, for many years, this item (for the plane known commercially as the DC-3) has been and still is purchased from the same vendor under the justification "impractical to secure competition," and "lack of specifications suitable for formal advertising."

Justification in support of prices paid under sole-source contracts is difficult because of a lack of adequate data for comparison purposes. Usually, the only data available are (1) the Government's estimated price, and (2) previous prices paid. Sole-source procurement is particularly vulnerable from this standpoint when under $50,000. Cost analysis is not normally made on such procurements, and prior review is not made above contracting officer level on those under $10,000.

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During fiscal year 1957, one Air Force Air Materiel Area (AMA) completed 33,816 procurement actions each under $10,000 for a total of $12,950,249. The total amount expended by the Air Force during fiscal year 1957 for the under $10,000 procurement was $527,172,000 in 1,472,543 procurement actions. This is big business and should be treated as such.

Very little price analysis, however, is made, and sole-source procurement seems to be the rule rather than the exception. Previous procurements of the same item are not always used to check the reasonableness of prices. An example of this failure is contract AF 34(601)–4165, entered into with a gear supplier as the sole source. The unit contract price for the item was $1.90. In examining the files, this staff noted that the last previous contract for the same item was $1.25.

Although this represented a 52-percent increase in price over a very short period of time, there was no evidence in the file to indicate that any investigation had been made or that the contractor's price had been confirmed in case of a possible error. Accepting an increase in price of 52 percent, without any explanation whatsoever, appears indefensible. This contract amounted to only $5,000, yet the items covered are purchased many times during a year. Without either negotiation, price analysis, or even the use of commonsense, the Government is completely at the mercy of the "sole" contractor.

In a 1956 report of Air Force procurement in the air materiel areas, the Inspector General stated:

> Contract review procedures are not fully effective. Check lists are not used in the review process. As a result, incomplete reviews are made based on the reviewer's memory and on reference to AFPI. Little consideration is given to quality of procurement action or cost analysis.

At one air procurement office, a member of the Procurement Committee said that a minimum of effort is being made by contracting officers to justify the reasonableness of prices in those cases under $10,000. He added that sole source cases in this category are particularly vulnerable, but nothing has come down from topside to correct the conditions cited by the Inspector General. He felt the practice of automatically accepting the price in the proposal was about the same as ordering from a mail-order catalog. The Procurement Committee reported that in October 1956 a spot check of 50 contracts under $10,000 revealed that 23 lacked adequate pricing information.

One case was reviewed where the buyer submitted for committee prior approval a proposed contract for various aircraft spare parts at a total price of $14,499. The committee noted that the proposed price was several times the estimated cost as set out in the purchase request and that information as to the reasonableness of price was not shown. As a result of the price analysis requested by the Committee, a reduced price of $11,373 was negotiated, with a savings to the Government of $3,126. Had this case been in the under $10,000 category there would have been no prior approval, and the excessive price would not have been discovered until after the award if at all.

Delays in the supply area sometimes cause questionable negotiations as a result of insufficient time in which to handle the negotiations properly. At one AMA, urgent purchase requests were prepared for 2 items recommending 1 company as the source. The urgency of the

procurement was caused by procrastination of supply people in another AMA. The buyer negotiated the contract with the recommended source only and accepted the prices proposed by the manufacturer on the basis that the contractor was the only known source having drawings and specifications, even though there had been no previous price experience. The two proposals aggregated $80,000 and had been referred to the local price analyst for review. The analyst's report was merely a brief statement to the effect that the prices appeared reasonable. The AMA Procurement Committee criticized the price analysis as being inadequate, but gave its reluctant approval of the proposed procurement because of the urgent need for the material.

DOD Directive No. 3222.1, paragraph IIC, dated July 5, 1956, states:

It must be remembered that premature production may impede rather than advance the state of readiness.

Yet the Air Force continues to negotiate and award production contracts which not only prove costly but delay the state of readiness. Skimpy performance specifications provided by the Air Research and Development Command (ARDC) results in poorly conceived contracts and many costly changes.

One example is contract AF 30(635)–4083 for 25 gap filler radar units awarded by the Rome Depot at the unit price of $70,904 each. After a number of trial and error changes, the price was increased to $105,000 each, and finally raised to $124,224 each for a total amount spent of $31,171,251. As the unit price was increased, the quantity was increased from 25 to a total of 172 units. Instead of the Government's receiving the benefit of lower prices for increased quantity, the reverse was true, indicating experimentation during quantity production.

An Air Force procurement spokesman said:

The Government's requirements could have been obtained for less than half the amount spent had ARDC developed prototypes through research and development contracts rather than the hit-and-miss methods used.

The Air Force technical grading method of arriving at an award tends to prevent consideration of more than one proposal even though a dozen may have been received. In this situation, proposals are received in the usual manner; but, before negotiation begins, they are sent to ARDC for grading as to technical acceptability. Determination is then made as to the best proposal by applying bidders' cost estimates to the technical grades. Negotiations are begun then with the bidder determined to be the lowest responsive considering grade and price. An example of this method of contracting is contract AF 30(635)–6436 for automatic transfer panels awarded by an Air Force depot after negotiation with only one bidder.

The proposals received were graded as follows:

Bidder No.	Price	Technical grade
1	$2,451,321	39 out of possible 50.
2	2,497,765	46 out of possible 50.
3	1,445,035	25 out of possible 50.
4	1,322,021	10 out of possible 50.

The contract was awarded to No. 1 after negotiating the price to $2,301,277. Although the contracting officer was able to reduce the price somewhat, he was acting under orders of his superior to confine the negotiation to only one bidder.

In an interview with a key procurement official at the depot, the following answers were given to the question "What was wrong with the other bids which prevented further consideration in view of the savings that might have resulted?"

> The No. 4 proposal was technically inadequate—did not sufficiently elaborate on electrical, mechanical, and environmental characteristics.
>
> The No. 3 proposal lacked sufficient information regarding enclosure design.
>
> The No. 2 bidder was rejected on price.
>
> NOTE.—ARDC said of this proposal: "A transistorized close-differential sensing circuit is proposed which appears to be the ultimate in simplicity, reliability, and sensitivity."

A possible million-dollar savings stared the Air Force in the face by considering the two low bidders, Nos. 3 and 4, whose principal fault appears to have been "lack of information furnished with their proposals." There was also the additional possibility of obtaining a superior product from the No. 2 bidder whose price was only slightly higher than the accepted bid and subject to downward negotiation. If the grading of proposals to establish the technical competency of each has any meaning, failure to negotiate with this bidder was inexcusable.

At no time was inquiry made or was there any consideration given to the rejected bids because, as stated by the key official—

> it is not the practice of the Air Force to hold an auction—all bidders were given an equal opportunity to submit their proposals in an acceptable manner.

What the Air Force refuses to recognize in cases of this type is the fact that all bidders are asked to submit proposals (not sealed bids) for negotiation purposes and that it is the contracting officer's responsibility to get the best deal for the Government through negotiation with as many suppliers as necessary to achieve those results. No stone should be left unturned. If a bidder meets all the criteria and was solicited for negotiation, his proposal should be given every possible consideration, and the mere omission of some descriptive data should not be reason for absolute rejection.

In the above-cited case, the potential saving of a large sum of money was completely ignored as was the possibility of obtaining superior equipment for less money, allegedly to avoid holding a so-called auction, but which, in reality, was failure to conduct a businesslike negotiation.

C. ARMY

A major improvement in Army procurement practices could be effected by reducing the number of cases where negotiation is necessary because of insufficient or incomplete plans and specifications. This is the justification for negotiation in far too many Army contracts. Some of these contracts cover items that have been previously procured, and steps should have been taken at the time of the earlier procurement to obtain plans and specifications of sufficient detail to permit formal advertising. The Army technical services affected appeared generally aware of this condition and offered some evidence of corrective action although complete effectiveness of such action

appeared quite distant at the time of the staff's review. The Signal Corps alone had a backlog of thirty to forty thousand drawings which was little or no improvement over the situation existing at the time of the staff examination in 1956. In general, the Army services have attacked this problem by letting engineering contracts with commercial firms to supplement their own efforts. This method should work toward a position of currency within the next several years, but it should be supplemented by a firmer policy of obtaining adequate and acceptable drawings either at the time of item development or concurrently with the first production contract. Continued work in this area will produce beneficial changes in the ratio of negotiated and formally advertised procurement.

In addition to eliminating, in many instances, the necessity of negotiation in favor of formal advertising, contracting methods, techniques, and regulations themselves can be improved. Many of the items and areas cited under the caption of "Advertised Procurement" are also applicable to negotiation. A more careful selection and consideration of sources and full cognizance given past performance would tend to eliminate a very troublesome area. A closer and more active support by headquarters levels of field recommendations would prove beneficial and a reconsideration of practices and policies governing the necessity of obligation of funds within the same fiscal year of commitment would relieve time pressures on contracting officers to the benefit of Army contracting.

There follows a summary of two specific Army contracts which illustrate the failure to have available plans and specifications suitable for formal advertising. The first case is typical of a condition encountered rather widely throughout the DOD and which negates opportunity to achieve maximum dollar economy through free and open competition.

Contract No. DA–20–018–ORD–15786 was negotiated by Army Ordnance for fuel trailers costing about $4½ million. The contractor had been previously awarded a contract to develop and design a suitable trailer, and by November 1956 he had completed the research and development contract work, including the delivery to Ordnance of four prototype trailers. The research and development contract did not require the contractor to furnish Ordnance with detailed drawings which would have permitted the procurement of production requirements through competitive formal advertising. Instead, only so-called facility-type drawings were required. Completion of these drawings to the point where they would have been sufficient to permit solicitation of bids through advertising for a production contract would have required a costly and time-consuming effort on the part of Ordnance engineering personnel. In justification of a sole-source negotiation of the first production contract with the developer, the record stated merely that "drawings and specifications now available are not suitable for bid purposes."

The DOD should reexamine its policy as to drawings required from research and development contractors. Existing policy statements are somewhat confusing but in no event do they prescribe the obtaining of drawings suitable without change for use in formal advertising. Steps should be taken to insure that such drawings are obtained in all cases where production quantities of the item covered by the research

and development contract are foreseen. There appears no valid reason why this cannot be done. Any modifications required to be built into the production units after perfection of the research and development prototype can be readily handled under the changes provision of the production contract. The fact that this use is one of the principal purposes of the changes article appears to be overlooked generally within the DOD.

The production contract under discussion was a straight fixed-price contract with the limited and not particularly valid (for pricing a production contract) cost experience of the research and development contract (four prototypes only, virtually custom made) as the only real support for the price. The price finally negotiated was the "best possible to obtain from the contractor." Reliance in support of this price was placed on the fact that a concession of almost $200,000 from the contractor's original proposal was secured. There is no way under the circumstances of establishing that such concession represented the proper amount. Fixed prices which have been forged and tested on the anvil of competition support and justify themselves in a system of free and open competition, but prices negotiated without competition and without any worthwhile cost experience represent only the best deal obtainable from a sole source. Proper drawings and specifications from research and development contracts would eliminate future instances of this all-too-frequent condition.

The added cost to the Government resulting from lack of competition is impossible to establish. It is noted, however, that a responsible officer of the Ordnance district which negotiated this contract cited an instance at that district in which a procurement originally scheduled as a sole source (without competition) and estimated at $9 million on the basis of previous negotiation with that source was accomplished through formal advertising (after securing suitable drawings) at a saving of approximately $1½ million, or about 16 percent.

Another example of continued negotiation without competition is contract No. DA–20–018–ORD–15711 for 3,400 three-quarter-ton trucks. In spite of the fact that a comparable vehicle has been procured from the same contractor (without competition) over a period of several years, the statement supporting negotiation of this contract without competition states that formal advertising could not be used because:

1. It is impossible to draft, for solicitation of bids, adequate specifications or any other adequately detailed description of the required supplies or services. Complete drawings for this procurement are unavailable.
2. This is the only previous manufacturer, and hence the sole source.

It is evident that this situation is the direct result of the failure of Ordnance to take prompt steps to obtain drawings and specifications. This continued negotiation with sole sources and without competition is a practice which must be stopped if the demonstrated benefits of competition are to be realized.

A refreshing example of sound procurement was encountered in the Southern European Task Force of the United States Army, Europe (SETAF). This organization does its buying at both Vicenzia, Italy (the headquarters), and at Livorno, Italy.

Although all offshore procurement is, pursuant to the Armed Services Procurement Act (10 U. S. C. 2304 (a) (6)), negotiated, SETAF follows the practice of requesting sealed bids to be opened at a specified time. The opening is not, however, in the presence of the bidders, for the stated reason that the subsequent negotiations would be more difficult. In the circumstances, it is felt that the procedure is justified. In all cases except those in which the amount of money involved is too small to warrant the effort, negotiation is conducted with the low, or a few low, bidders. The contracting officers believe that the bidders (almost without exception nationals of the country) regularly include something in their bid prices which they fully expect the contracting officer to attempt to negotiate out. The average dollar value per transaction is quite small (less than $500 for fiscal year 1957 resulting from 10,281 actions aggregating $4.5 million), but, even so, the military contracting officers and the key civilian assistants (the latter are nationals) are satisfied that bidders almost invariably engage in this practice. This is confirmatory of the conclusion stated earlier in this chapter that, when proposals are received for negotiation, actual negotiation or bargaining should take place. It is interesting to note that the scope of the negotiations and the nature of the requirements are such that all procurement actions for fiscal year 1957 were straight fixed price, not subject to adjustment for any reason, not even labor or material escalation.

In line with its practices of entering into contracts with the manufacturer of specially designed military vehicles for the purpose, among others, of having the drawings revised to reflect engineering changes, Army Ordnance entered into contract No. DA–20–018–ORD–15787 with a principal automobile producer. This type of contract is designated by Ordnance as VEA (vehicle engineering analysis).

The contract covers work programed for fiscal year 1958, with estimated costs of $1,215,000. The contractor is to be reimbursed costs allowable under the contract and will receive a fixed fee in the amount of $85,000, almost exactly 7 percent of the estimated costs. This is a customary allowance for a CPFF production contract, but appears somewhat high for the amount and kind of effort required of the contractor for work of this type.

One of the basic reasons for entering into the contract with the particular firm was a desire to utilize its skilled manpower. Shortly after award, however, the contractor proposed a subcontract with an engineering firm for almost one-quarter million dollars for the services of detailers (lower classified engineering personnel), checkers (the supervisory group), and certain other engineering personnel. No such volume of subcontracting was contemplated during negotiation.

The arrangement is open to the following objections:

1. Payment to the subcontractor is at hourly rates, included in which are allowances for profit. This is in addition to the prime contractor's fixed fee and results in the payment of double profit on the same work.

2. Provision is made for overhead payments to the prime contractor to compensate for an alleged increase in administrative expenses for administration of the subcontract. The amount per hour for prime contractor's overhead for "purchases engineering

services" is stated as $1.91, a figure which appears to be out of all proportion to reasonably expected out-of-pocket costs.

3. Although the preaward survey indicated that the subcontractor had available qualified personnel, none of the detailers on the job at the time of the staff's study had ever before worked for the subcontractor and, of the checkers, only one individual had ever before worked for the subcontractor, and he worked from only January 1, 1957. The staff has just recently been informed (6 weeks after the date of the study at Ordnance) that the expected 30–40 subcontractor personnel is being rather sharply reduced, since the prime contractor is now able to furnish the remaining engineering personnel requirements from within its own organization.

Finally, the record of selection of the prime contractor contains no support for the fact that it was chosen without consideration of any other company. The only justification is that the Ordnance Purchase Assignment Board had "determined" that the firm be the VEA for the XM–151 series vehicle (the jeep) for the first 12-month period. Since this vehicle has been in production for several years, it is hard to understand why no other manufacturers have had the opportunity to decide whether they want to compete. Ordnance stated that no one else had ever built the vehicle and that, even at this late date in the vehicle's history, drawings and specifications adequate for either formal advertising or competitive proposals were not yet available.

D. NAVY

The Navy is also guilty of the practice of sole-source negotiation without competition, compelled by failures to get drawings and specifications. This and other poor contracting practices found in the Navy are exemplified by the following cases:

Contract N12s–83419 was negotiated for 75 intercommunication stations amounting to $29,171.25. The record implies that purchase was made for the purpose of absorbing the manufacturer's overrun of 75 units produced as a result of contract NObs 67047 with the Bureau of Ships. The price paid under NObs 67047 was $388.95 per unit. This was the same price paid under contract N126s–83419 despite the fact that for a considerable period of time the contractor had on hand 75 special units built to military specifications. There was nothing in the files (prior to the contractor's initial announcement of his overrun and his followup letter of February 1, 1957) to indicate that purchase of such additional equipment was contemplated, nor was there any evidence of negotiation for lower prices for the overrun or negotiation with other suppliers.

Contract N126s–83590, dated June 10, 1957, with the same contractor, was negotiated for 133 intercommunication stations totaling $51,437.75. Negotiation was on the basis that

> urgent needs reflected by stock control for European military defense aid program would not admit the delay incident to formal advertising and subsequent time required for environmental testing and quality approval.

It is difficult to visualize a stock-control requirement under the military assistance program (MAP) for an article such as an intercommunication station so urgent as to preclude all competition.

The Aviation Supply Office (ASO) continues to negotiate the purchase of a water emulsion cleaner with only a single source. Contract No. 383–44457A in the amount of $35,856 was negotiated for Turco product Nos. 4008 and 2844. The record shows repetitive procurement from this source for a number of years. Military specification MIL–C–7122 covers a product of a similar nature which apparently meets the requirements of other armed services. It is inconceivable that there is only one water emulsion cleaner manufactured, or that could be manufactured, which would meet the Navy's requirements. However, procurement of this item continues to be by single-source negotiation rather than by advertisement.

A flagrant example of continued negotiation with a single source, as well as relaxation of delivery schedules without any real consideration, is found in a series of contracts for crash helmets negotiated by ASO.

The first production contract (letter contract No. 26327A for $794,000) was negotiated in February 1956 with the developer of the helmet. This was done on a singe-source basis in spite of the fact that two other firms had previously manufactured the item to a generally similar specification. Justification for negotiation was that the drawings and specifications were not sufficiently complete to permit formal advertising. The Bureau of Aeronautics, however, had been "reviewing" the drawings and specifications from the development contract since "midsummer 1955."

The delivery schedule called for completion of deliveries by June 1956, but, by the time the definitive contract was executed in June 1956, no deliveries had been made. This was stated by the contractor as due to "production and technical difficulties" which had also delayed deliveries under an earlier contract for comparable helmets. In spite of these conditions, the definitive contract allowed a profit rate of 12 percent, which appears wholly unwarranted in light of the poor production experiences. The delivery schedule was subsequently relaxed, without consideration to the Government, to permit completion by December 1956. Delivery was not completed until March 1957.

From about January 1, 1957, the contractor repeatedly urged ASO to utilize his production capacity after the date of expected completion of the production order. Another production order for over $1 million (46709A) was negotiated without competition with the same contractor in April 1957. In spite of the previous production difficulties, 12 percent profit was again allowed. The record authorizing this negotiation without competition advances two grounds in support of such action: (1)—

Helmet was originally designed under development contract and hence the contractor is the only source to insure proper functioning of equipment and suitability for purpose intended—

and (2)—

Modification to Government specifications precludes advertising since modified drawings and specifications are available to the contractor only, together with the fact there are no other qualified manufacturers.

The above has a very hollow ring in view of the fact that the Bureau of Aeronautics had been "reviewing" the original research and development contract drwaings since midsummer of 1955 and that only two

minor engineering changes had been incorporated by modification into the previous contract.

The staff considers this a very reprehensible example of continued negotiation with a single source long after any real justification is apparent. The philosophy herein displayed is tantamount to vesting in the developer or initial producer of equipment almost perpetual rights to all subsequent required production. Such is obviously not the intent of our Government's procurement policy, and steps which will prove effective in forcing its elimination are needed. There must be, first, a high-level awareness that the condition exists and, second, sound policies strictly policed to curb the practice.

"Urgency of placing the work under contract" was the principal justification advanced by a Navy prime construction contractor for negotiation of a $4 million construction subcontract, with only 1 firm being asked to submit a proposal. However, the complete plans and specifications were available, and real competition could have been obtained during the 2½-month period taken for Navy approval and the actual negotiation.

On January 8, 1957, the prime construction contractor in the Spanish airbase program requested authority of the Navy officer in charge of construction (OICC) to negotiate the work with one Spanish firm. Fifteen days later, approval was refused and the contractor was instructed to get competitive bids for the work. Then, on February 13, 1957, the Navy representative authorized negotiation with the one contractor, again with the justification of the "urgency." After the period of negotiation as to price and scope of work, a letter contract was entered into on March 20, 1957, at a price about $150,000 higher than the estimated costs.

The same Spanish subcontractor was involved in another negotiation where "urgency" was the only justification for the prime contractor negotiating with only one source. The price proposed was so much higher than estimates that the prime contractor considered the proposal unreasonable, yet recommended acceptance to the Navy representatives. Fortunately, the Navy OICC instructed the prime contractor to terminate the letter contract already signed and perform the work with his own forces. The record indicated the bidder adamantly adhered to his proposed price, a situation that may be expected from anyone who considers himself a single or sole source. It would have been costly to the Government if it had not been possible to turn to the prime contractor for performance of the work.

V. Types of Contracts

A. LETTER CONTRACTS

1. General

Despite continued protestations by the three services relative to efforts to restrict the use of letter contracts and to assure early definitization thereof, the trend of actions pending as of the close of fiscal years 1956 and 1957 continues to be fairly constant. While this is true of the number of actions, the dollar volume increased substantially in fiscal year 1957 and DOD-wide the time to definitize likewise increased. A schedule which follows presents a recapitulation

of the letter contracts which were awaiting definitization at the close of the fiscal years 1956 and 1957. ASPR (3–405.3) provides that a letter contract shall be superseded by a definitive contract prior to 180 days from the date of the letter contract, or prior to 40 percent of the production of the supplies or performance of the work, whichever occurs first, and that in extreme cases an additional period may be authorized.

In addition to curtailing the use of letter contracts, it is apparent that the services need to take vigorous action in order to achieve definitization within the prescribed period.

Letter contracts outstanding as of close of fiscal years 1956 and 1957—Army, Navy and Air Force

Age in months	Fiscal year 1956		Fiscal year 1957	
	Number	Value	Number	Value
0 to 6	149	$528,737,999	115	$466,754,178
6 to 12	34	359,882,122	57	1,076,817,541
12 to 18	19	318,964,815	20	443,333,824
Over 18	31	837,209,125	15	562,673,000
Total	233	2,044,794,061	207	2,549,578,543

Although there was improvement in the number of letter contracts outstanding, the reduction of 26 was more than offset by the fact that the amount of authorized expenditures represented in the letter contracts was increased by over one-half billion dollars.

2. Army

There was a sharp increase in the use of letter contracts by the Army. Ninety-five were executed in fiscal year 1957 compared with 64 the prior 14-month period. While the increase was partially due to the increased missile activity, use of letter contracts in other programs also increased. Only 3 contracts were extended beyond a period of 190 days. However, 1 contract was definitized 309 days after issuance of the letter contract. As of the close of fiscal year 1957, the Army had 17 undefinitized contracts with a total dollar value of $91,764,295. Since that time 8 of these have been definitized, and, of the 9 remaining undefinitized contracts, the oldest one had been in effect 30 days as of June 30, 1957. Although the number of letter contracts increased, the time needed to definitize them was reduced considerably.

3. Navy

The statements made in the 1956 report pertaining to unconscionable delays in converting letter contracts to definitive contracts are even more pertinent to the current Navy situation. The Navy had 78 undefinitized letter contracts with a total value of $1.2 billion as of June 30, 1956. There were 69 with a value of $1.6 billion outstanding as of June 30, 1957. Of the latter, 57 were past the definitization period prescribed by ASPR. The average time the Navy takes to definitize a letter contract is 17 months or approximately 1 year more than specified by ASPR. One case which cannot under any

circumstances be reconciled with logic involves a conversion time of over 4 years. It appears, at least in this instance, that the Navy is derelict in complying with DOD instructions.

A case involving delay in converting a letter contract to a definitized contract and showing some of the problems arising from the use of letter contracts is cited.

A letter contract was entered into by the London Navy Procurement Office on April 26, 1956, with the British Ministry of Supply for 22 planes (Sea Hawks) complete with spare parts and certain installed equipment. The original date of conversion cited in the letter contract was September 30, 1956. An examination of the file showed amendments to the contract extending the conversion date to October 30, 1957. Questioning of the contracting personnel elicited the information that conversion delay was attributed to—

(*a*) Delay in reaching an agreement on the spare parts required and the cost of same.

(*b*) Delay in reaching agreement on type and source of necessary electronics navigational equipment.

(*c*) Inclusion in the price of amounts for research and development and for the Society of British Aircraft Constructors (SBAC).

(*d*) The length of time necessary to reach an agreement on the basic cost of production and the price of the plane.

As a result of the delay in converting to a definitized contract, the British are accumulating cost experience each day the contract runs, and the Navy is placed in a position of distinct disadvantage in the negotiation phase in reaching final agreement on the price. As a matter of record, the first aircraft was delivered in August 1957 and complete delivery is expected not later than the end of calendar year 1957. This assures the Ministry of Supply a virtually risk-free contract even though the contract when finally definitized will be a straight fixed price.

As of the week of August 19, 1957, the contracting officer had been authorized by the Chief, Naval Operations, to proceed with the definitization of the contract, with the research and development charges to be included in the price. The contract was to include a clause to the effect that if later high-level diplomatic discussions decided the charges were not proper they would be refunded. The Navy contracting office insisted that there be an agreement as to the amount of the refund, to which, however, the Ministry of Supply would not agree. The levy for the SBAC, cited as the third reason for delay in definitizing, is allegedly to provide funds to promote overseas sales and to afford technical assistance in support of the manufacturer's overseas sales agencies. This levy is not made on planes for use of the Ministry of Supply; but, as these planes are for the Netherlands, the British consider this an export sale and, as such insisted that the levy should apply even though the planes are for the MAP program.

While the following case points up a Navy deficiency, the same condition relative to time pressures is applicable generally to the other services.

Exemplifying the time pressure under which contracting officers are often placed toward the close of the period of availability of funds is contract No. N62558 entered into (as a letter contract) on April 30,

1956, by the London Navy Procurement Office. This contract is in an amount slightly in excess of $2¼ million and covers a floating drydock for delivery to Turkey under the MAP.

Program clearance, including availability of funds, for initiation of procurement action was not completed until the latter part of March 1956, and the closing date for receipt of proposals, four of which were received, was April 18, 1956. According to the file, serious questions, both technical and otherwise, were involved in each of the four proposals. As of the closing date the principal Navy negotiator placed the following statement in the file: "On the basis of above answers, it would appear that it is possible by much traveling and many late hours to secure a letter of intent for the drydock by April 30, thereby leaving May and June limitations available to place the balance of the MAP program." Under this particular appropriation 80 percent of the funds obligated during the entire fiscal year had to be obligated by April 30; this had the effect of limiting the amount of money that could be obligated during the last 2 months to 25 percent of that obligated during the first 10.

The letter of intent in this instance was completed on April 30, the very last day available if the remainder of the program scheduled for May and June was not to be drastically decreased. During this period the firm to which the contract was actually awarded withdrew that part of its basic proposal for labor and material escalations and agreed to accept a 5-percent increase of its fixed price in lieu thereof. It is not possible to support completely the reasonableness of such a charge, but it appears to be a valid conclusion that the time pressure under which he was operating influenced the negotiator's decision to accept it. The propriety of the 5-percent amount (roughly $100,000) is in the final analysis a matter of judgment, but it is pointed out that the period of construction was only 1 year and that all material could have been, and no doubt was, ordered as soon as design would permit. In such light, 5 percent of the entire contract price for labor escalation over a single year appears high.

4. AIR FORCE SECTION HEADING

The largest user of letter contracts is the Air Force, with 372 executed during fiscal year 1957. As of June 30, 1957, 121 were undefinitized compared with 136 on June 30, 1956. While the total number decreased some, the number of overage actions was about the same. The average time required to definitize 387 contracts during fiscal year 1957 was 125 days. The oldest case took 952 days. Although there were fewer contracts on hand at the close of fiscal year 1957 than fiscal year 1956, they represent $120 million more in authorized expenditures.

The meaning of "definitization" appears to differ between the Air Force and the other services. In some of the larger monetary contracts, the Air Force employs an intermediate step between the letter contract and the definitized formal contract. This step is called a billing-type contract. In the compilation of the statistical data, all billing-type contracts were considered as definitized. A good example of the loose interpretation of the word "definitization" and circumvention of the regulations is cited in the following transaction.

Letter contract AF–33(600)–31525 was entered into with an airplane manufacturer on November 14, 1955. The staff was informed by the contracting officer that a definitive (billing type) contract was executed on March 9, 1956. This contract was definitized only to provide a means to effect payment to the contractor and to designate the quantity of aircraft to be furnished. The classification of this action as "definitized" is certainly misleading as it is far from being a formal definitized contract in the true meaning of the term. Actually, neither price nor terms and conditions had been agreed to. The Air Force intended to negotiate a fixed-price-incentive contract in December 1957 to fully definitize the original letter contract and the billing-type contract. This means that over 2 years will have elapsed before the latter contract is definitized, if such action is actually taken by December 1957.

The establishment of the profit factor and the incentive target price after 2 years' experience requires great skill on the part of the Air Force contracting officer at the negotiation table. Under these circumstances, it is difficult to expect that the latter can hope to be in a position as advantageous as that of the contractor. In contracts of this type, an unrealistic target price could mean increased profits running into considerable sums of money. It is only natural that under a letter, or undefinitized-type, contract costs are not under as close surveillance as would be the case under a formal definitized contract where the contractor assumes some degree of risk which he does not assume under the letter contract. "Corner cutting" practices would, moreover, be more difficult to detect.

The staff does not advocate complete abolition of the letter or undefinitized-type contract but does recommend a more proper and judicious use of them. The general policies as stated in ASPR constitute adequate ground rules. The conditions noted above appear to stem from a lack of follow-through at the necessary level within the DOD to insure reasonable compliance with the policies. The staff urges that appropriate steps to this end be taken promptly.

B. PRICE REDETERMINABLE CONTRACTS

1. General

The use of contracts with provisions for the redetermination of the price is a recognized method of sound contracting. However, careful administration of such contracts requires that the redetermination be made at the proper time. ASPR does not establish any time period after the date provided in the contract within which redetermination must be accomplished and is deficient in this respect. ASPR does provide (3–403.3) that price redetermination not be used unless a reasonable assurance exists that it can be accomplished on a timely basis. The services have recognized this as a troublesome area and have, from time to time, expressed concern over the delays. Action to correct this condition has not, however, been as effective as it should have been. Considering only contracts of $300,000 or more, there were—as of June 30, 1957—438 contracts within the DOD on which price redetermination action was past due. These contracts involved more than $10 billion.

The chart below shows the number of contracts DOD-wide in which redetermination action was past due as of June 30, 1957:

Less than 120 days	32
120 to 180 days	207
180 days to 2 years	141
Over 2 years	58
Total	438

Failure to promptly take redetermination action, particularly in contracts involving form IIB, which generally establishes the redetermination point at 40 percent of completion, brings about a condition which at times closely approaches cost-plus-a-percentage-of-cost contracting (CPPC). This method of contracting is prohibited by law, as reflected in ASPR 3-401. Extended delays often result in the redetermination not being accomplished until after completion of deliveries, by which time the contractor knows exactly what his costs have been. The application of a profit factor to such costs can—in actuality—result only in a CPPC arrangement. In addition to a condition contrary to law, these delays permit the contractor to use at the negotiating table cost data for the entire contract, whereas the contracting officer has such data only for the initial 40 percent of production. Under such circumstances, the contracting officer is obviously at a disadvantage in the price negotiations.

2. Army

Army Procurement Procedure (APP) provides that price redetermination action must be completed within not more than 120 days after the date for such action as established by the terms of the contract.

A report dated October 10, 1957, on price redetermination contracts in excess of $300,000, was submitted to the staff by the Army. It shows 143 such contracts—as of June 30, 1957—on which the price redetermination date was past due. Analysis of the data disclosed that only 28 of these contracts (approximately 20 percent) are within the 120-day period prescribed by APP. Twelve contracts are between 121 and 180 days and the balance of 103 contracts are more than 180 days past the redetermination date. Of the 143 contracts reported, all but 28 are delinquent as measured by the standard of the APP.

The Quartermaster Corps has 18 contracts awaiting redetermination, 1 of which has been pending such action for over 7 years. Several have been past due for as long as 5 years. The Quartermaster Corps appears to be exceedingly delinquent in this area as staff analysis discloses that it has required an average of 1,300 days or about 3½ years more to finalize redeterminations than the APP standard. This period is, however, in sharp contrast with the Signal Corps and the Ordnance Corps which average 245 and 179 days, respectively, more than the prescribed time.

The following statement, which is an excerpt from the previously referred to report submitted to the Staff, indicates that the Army has recognized the situation:

> Even though progress is being made, the Department of the Army is vitally concerned with finalizing those contracts listed in the report and has initiated a

vigorous followup program to insure, consistent with protecting the Government's interests, that price redetermination contracts are completed as expeditiously as possible. This followup program will apply not only to the contracts reported herewith but to all present and future price redeterminable contracts.

Despite the expressed concern of the Army regarding the unwarranted delays, little progress has been made in correcting the deficiency. It will be interesting to note whether or not this recently initiated "vigorous followup" program results in any measurable improvement.

Contract DA–91–557–EUC–329 entered into by Army Ordnance for 90 MM shells is one of the contracts studied by the staff in which serious delay in completion of price redetermination occurred. The contract was executed in the spring of 1954; the original delivery schedule required completion of the $18 million order by April 1956. As a result of delivery delinquencies, certain basic changes were made in the contract which permitted deliveries to be concluded as late as mid-1957. Deliveries were actually completed by that time, but redetermination was not anticipated to be concluded before January 1, 1958. As a safeguard against possible overpayment (by reason of possible downward redetermination) the contracting officer directed that $800,000 be withheld from payments otherwise due the contractor. This brought a prompt complaint from the contractor in part as follows:

> If we have to wait another 2 years * * * before you release the enormous sum of $800,000 to make final payment under this contract, it would place us and our subcontractors in an absolutely untenable position *and for reasons that are in no way any fault of ours.* [Emphasis supplied.]

It is appreciated that audit and other administrative and technical details prior to a major redetermination are inevitably time-consuming, but it is submitted that there is little valid excuse for delays of the magnitude recited above.

The need for sound application of the principles of price redetermination is illustrated in two additional examples of Army Ordnance procurement. Contracts DA–91–557–EUC–100 and 123 covered about $55 million of ammunition and each provided that the work performed by the prime contractor was subject to redetermination but that the subcontract work (about two-thirds of the total) was not. The prime contractors, however, actually secured cost information from the principal subcontractors, and from such information it has been established that the costs to the Government would have been approximately $2 million less had the same principles of redetermination applicable to the work of the prime contractor been extended to the subcontract work.

The record does show a sincere though tardy and unsuccessful effort on the part of both Ordnance and the prime contractors to secure agreement of the subcontractors to redetermination. The matter was finally submitted to the Judge Advocate General who advised that he could see no way whereby—under the agreement as drawn—any part of the $2 million could be recovered.

3. Navy

According to the Navy's report of September 10, 1957, there were 117 contracts over $300,000 on which the point of redetermination has

been reached but final pricing had not been completed as of June 30, 1957. Eighty-one of these contracts with a total dollar value of $353,440,419 were over 180 days past the redetermination date. Excluding the single-manager operation of medical procurement for which Navy is the executive agency, an average of 471 days is required by the Navy to finalize redetermination action. Several contracts are over 33 months past the redetermination date, with the oldest being approximately 5 years past that date.

The Navy also expressed deep concern over this condition and advised that, as of the beginning of fiscal year 1958, a followup action was instituted to ascertain the areas of delinquency and that measures to eliminate all possible delays will be initiated.

4. Air Force

The Air Force had, as of June 30, 1957, 220 contracts in excess of $300,000 with a dollar value of $4,520,790,073 on which price redetermination had not been completed. Thirty-two of these, with a value of $999,874,176, were over 180 days past the effective date for redetermination. Several contracts had been in the process of redetermination for longer than 1 year.

Certain contracts show a need for closer administration by the contracting personnel relative to accounting procedures established by the contractor. Prime examples of this need are three contracts executed with a camera and instrument company for identical equipment. Following is an excerpt from the Air Force's report to the staff relative to these redetermination contracts:

> Contractor did not segregate costs by contract, nor by individual items on each contract as specified by the documents. Therefore, when the time came to submit cost data, the contractor's costs were not in such form that they could be easily compiled and as a result the contractor was delinquent in the submission of cost data.

In another instance, a corporation commingled costs of two commercial contracts with that of contract AF33(600)-28468. This delayed the submission of cost data and resulted in an abnormally long period before redetermination.

C. TIME AND MATERIALS CONTRACTS

Paragraph 3-405.1 of ASPR spells out the care which should be exercised in executing a time and materials (T&M) contract and the dangers in this use. However, some use is still made of the T&M contract which the staff feels is in certain instances at variance with the above regulation.

1. Army

In the staff's coverage of the technical services' procurement activities, few instances were noted of the use of T&M contracts. Although the case cited below is an isolated one, nevertheless it points up the need for continued surveillance of contracting practices within the services.

The Ordnance Corps on February 14, 1953, executed a time and materials contract, No. DA-04-405-ORD-430. Even though APP 3-405 cites the hazards and pitfalls of this type of contract, it was

renewed by modifications to extend the period to June 30, 1957, a period of over 3 years. Although the scope of work appeared to be sufficiently firm after completion of the first year of the contract, no attempt was made to negotiate another type of contract such as CPFF or fixed price, which should have resulted in a less costly operation to the Government (would have tended to create a more efficient operation by the contractor).

2. Air Force

The Air Force contracting practices in the Far East and Europe relative to the engine overhaul programs appear somewhat divergent. The contracting office in Japan initiated the program by executing time and materials contracts. After a period of time sufficient to allow for a firm determination of costs, the contracts were converted to CPFF contracts. As a more firm cost analysis was possible, the CPFF contracts were converted to fixed-price contracts with parts furnished by the Air Force. This type of contracting follows the policies set forth in ASPR and is procedurely good.

The Air Force in Europe (USAFE) uses time and materials contracts to a great extent in obtaining engine overhauls and maintenance on its bases. The contracts are usually executed for a 1-year period with renewal option clause for 2 additional years. In review of these contracts, the staff observed a tendency to exercise the option renewal year after year with no attempt to convert to a better and less costly type of contract or to determine that this same type of contract could not be secured at less cost from a different supplier. The reasons given by theAir Force for the continued extensive use of the T. and M. type contract were:

(*a*) Foreign contractors are reluctant to enter into other types of contracts.

(*b*) This type of contract has satisfactorily "filled the bill" for purposes used, and to change would require extensive reeducation of the contractors.

(*c*) USAFE maintenance contracts are negotiated by base contracting officers, 60 percent of whom have had little previous contracting experience before present assignment, and time and materials contracts, being the type best understood by contractors, offer fewer problems of negotiation and administration to such officers.

There is a place for time and materials contracts in the procurement field, particularly when "breaking new ground" and where, because of indefiniteness of the end product, the use of CPFF, fixed price, or other type would lack definition and would not be advisable. Under the best conditions, T. & M. contracts require extraordinary negotiation, surveillance, and administration, as the contractor's profit is in direct relation to each hour of labor used and, therefore, is not conducive to an efficient operation.

All of the faults for the extensive use of T. & M. contracts cannot be attributed to the base contracting officer as all contracts of over $15,000 are reviewed by Headquarters, USAFE, and the policy should emanate from there. One of the T. & M. contracts reviewed in Europe is contract AF61(517)–128 for operation, maintenance, and repair of a base facility. The contract was executed for a period of 6 months

(January through June 1957) and contained renewal clauses to extend through June 1959. The file reflected no reason for a difference between the contract hourly rate of $3.16 and the contractor's proposal of $3.07. The contract was renewed for the fiscal year beginning July 1957, with no evidence of a precanvass of other sources, negotiation with the present contractor, or an exploration of other and possibly more efficient or more appropriate type of contract. The renewal notice issued by the base contracting officer was dated May 1957, to become effective on July 1, 1957. As the contract was for a sum greater than $15,000, it required approval of Headquarters, USAFE. Approval, subject to numerous corrections, was not given by headquarters until July 24, 1957, which was 24 days after the contract became effective. Any advantage to be gained by advice, guidance, and approval action of the headquarters was lost by the delay. One of the provisions for approval was a directive to the contracting officer to negotiate a supplemental agreement, signed by both parties, in lieu of the exercise of the renewal option specified in the contract. This action at a date after the expiration date placed the contractor in a position of advantage had he wanted to request a higher hourly rate structure. The lack of evidence of exploratory efforts to effect a change to a more acceptable type of contract (after 6 months' experience) was not questioned by the approving office.

VI. Contract Administration

A. General

Previous staff reports commented on contract administration. The present staff reviewed this vital area of procurement responsibility to determine the effectiveness of this function, concentrating its efforts in this area in the Navy. Only limited data regarding the Army and the Air Force are reported.

The term "contract administration" covers a number of functions in government management of contract performance. The scope of administration needed to prosecute and protect the Government's interest may vary by source and commodity and by size and type of contract. The best job of contract administration is done when effective instructions are given to trained personnel who assume the initiative in carrying out their assigned dutes.

The ASPR is quite general regarding contract administration and its composition is such that the value as effective policy guidance to the three services is limited. Each service and, in some cases, purchasing activities within a service are required to develop their own operating procedures without benefit of appropriate centralized policy guidelines. As a result, implementation in some areas is weak, and a uniform approach and direction are lacking. The staff recommends adoption of a positive and aggressive policy of contract management having timely, complete, and realistic objectives. A fully developed section in ASPR would be a major step forward in this field of activity.

Contract administration in general leaves something to be desired. An inherent weakness is created by splitting responsibility for contract administration among individuals and among offices. The necessity for delegating certain authorities in this area is recognized but

the adverse effect can be minimized through use of (1) sound and well-defined operating instructions, (2) effective training, and (3) coordination of effort. It is evident from the examples cited that neither the contracting officer nor his authorized representative gives timely attention or takes adequate steps to see that all contract terms are met. The purchasing office having delegated both authority and responsibility feels it is no longer basically responsible for contract administration; and the office to which the delegation has been made in too many cases simply fails to take effective action. Late or defective deliveries often result, which cause costly delays to highly important projects. Moreover, specialized and other scarce and highly trained personnel are needlessly tied up. Last, but by no means least, is the unnecessary additional cost usually incurred, which the taxpayer must assume as a penalty for inefficient action on the part of the Government. Conditions encountered in each of the services follow.

B. AIR FORCE

In the Air Force, the administration of contracts is not the responsibility of the procuring contracting officer. Rather, administration is handled by 18 air procurement districts (APD's) which geographically cover the United States and by 30 Air Force plant representative offices (AFPRO's), located in the plants of the most important Air Force contractors. Each APD or AFPRO has one or more administrative contracting officers (ACO's) whose duty is to administer Air Force contracts. The contract division, production division, and the quality control division are the three principal divisions in an APD or AFPRO dealing with contract administration. Reports on progress are made on an "exception" basis; that is, if progress is satisfactory, reports are not made outside of the APD or AFPRO.

Responsibility for determining requirements is within the supply area, not in procurement or production. Thus the Air Force contracting officers and the ACO's are not responsible for determining whether a current need exists for items being procured on long lead-time contracts. The staff noted one 1952 Air Force contract in Europe (AF61 (514)–249) under which items were still being produced in 1957. The file did not indicate that any thought had been given to the continued firmness of the requirement until the contractor became delinquent in June 1957. On June 12, 1957, the contracting officer advised the Air Materiel Command (AMC) and the prime depot in the United States of America that 95 radio compasses remained undelivered out of the contract quantity of 649, and that the contractor was experiencing production difficulties but was believed able to complete the quantity if allowed sufficient time. The contracting officer in Europe indicated his headquarters was amenable to a contract change which would reschedule deliveries, provided the requirement was still firm. On June 28, 1957, an AMC message to the Air Materiel Forces, European Area (AMFEA), recommended termination of the remaining 95 radio compasses together with a commensurate reduction in accompanying spare parts. On July 1, 1957, AMFEA advised AMC that 92 of the units had been completely constructed and that termination costs were estimated at 97 percent of

the contract price. Two days later, AMFEA advised AMC that 30 of the 95 units had been delivered in June, 30 were expected in July, and the remainder were expected by the end of September. On August 7, 1957, AMC advised AMFEA that its recommendation to terminate 95 units was based on 3 considerations:

1. Advanced age of subject contract and likelihood, therefore, that requirements for the last 95 units were no longer valid.

2. Prime depot assurance that its stocks of this article were ample to offset possible shortages created by offshore termination of 95 units.

AMFEA advice in June that the 95 units would be further delayed because of contractor production difficulties.

AMC then said its recommendation of termination action should be disregarded since information previously submitted to it was not accurate and, under the circumstances, no financial advantage would be gained from termination action.

In summary, the Air Force will spend about $70,000 for 95 radio compasses in 1957 that had been ordered in 1952 and 1953, at least 4 years earlier. They are not needed, as the prime depot stated its stocks of the item were adequate to offset the contemplated termination of the 95 units. AMC initially assumed that the requirement was no longer valid because of the advanced age of the contract. However, AMC has no instructions that periodic inquiries should be made as to the continuing validity of requirements in contracts that remain active for long periods of time. The administrative contracting officer failed to furnish the procuring contracting officer with adequate information as to the progress of the contract. The result was an unnecessary expenditure of public funds.

Loose contract administration in one Air Force office in Europe permitted the holder of engine overhaul contracts to defer his contract responsibility of repairing all reparable parts removed from engines during overhaul. During the productive life of the contract the reparables were set aside and new items were drawn from stock. The contract was almost completed when the situation was discovered and action taken to get the contractor to set up a suitable program for liquidating the stock of reparable parts which had accumulated. The parts had a total value of $852,509.50. The full impact of this situation is not as yet ascertainable, but at the very best a large stock of Air Force spare parts was unnecessarily kept out of use for varying periods up to 3 years.

The same contractor, in overhauling another type of jet engine, performed repair work on Air Force spare parts without having contract coverage. These were items which were shipped to the facility as "serviceable" but which were damaged and required repairing. This, too, went on for a long period of time before the administrative contracting officer took corrective action.

C. NAVY

Since responsibility for contract administration is divided among two or more offices, coordination of effort and timeliness of action are difficult. The contracting officer has certain primary responsibilities for contract administration, yet the staff found that in many

cases he was not furnished with adequate information. In a large percentage of the cases examined, contract files did not show the status of contract performance. Responsibility for contract performance is placed with the material inspection service (INSMAT). The contracting officer does not know whether the job is ahead of schedule, delinquent, or completed. If he is not informed to the contrary by the cognizant INSMAT stock control office, the requisitioning office, or other source point, the contracting officer can only presume that all is well. Initiative is not being employed by those responsible for contract administration. Valuable performance time is thereby lost and added expense often results from the Government's failure to take timely action. Not enough is being done by Navy personnel in working with the contractor to resolve mutual problems and clear up misunderstandings prior to the time actual delinquency occurs. The staff firmly believes that if this were done deliveries would be expedited and in many cases delinquency prevented. The Navy tries to control the important function of contract administration through practicing "management by exception" rather than "management through systematic controls." In analyzing the deficient administration given to the management of contracts, the staff was convinced that much of the difficulty is caused by—

1. Incomplete files and lack of proper filing techniques.
2. Lack of defined procedures requiring that all matters pertaining to contract administration be handled through the contracting officer, or made a matter of record in the contracting officer's files.
3. Following precedents of long standing without a review of current conditions.

A few instances of weaknesses in Navy contract administration follow:

The Navy entered into eight contracts with the same firm. They ranged in date from January to August 1956. By January 1957, deliveries on 1 of these contracts were more than 6 months behind schedule and on several others deliveries were from 30 to 60 days overdue. The files disclose that the contracting officer did not take action to rectify this situation until after aircraft were actually grounded because of lack of critical parts purchased under these contracts. This failure could have been avoided if procedures had been established whereby the contracting officer was kept currently informed of the status of contract performance. Inspectors' reports in the contract officers' files purporting to explain delivery delinquencies were no more informative than the following:

Contract	Delivery		Cause of delay as per inspection report
	Date due	Date completed	
ASO–77539	November 1956	January 1957	INSF lead time.
N383–24014a	June 1956	do	Scrap loss.
N383–28801a	August 1956	February 1957	Schedule slippage.
N383–31747a	November 1956	January 1957	Failed in test.
N383–32331a	October 1956	February 1957	S. P. order, manufacturing failure.
N383–33080a	December 1956	do	Late arrival Raco equipment.
N383–34243a	do	do	Die trouble.
N383–35495a	do	do	Delay manufacturing.

It is evident that a contracting officer cannot arrive at an intelligent decision from such inadequate information.

Contract N204s–32532 was entered into with another contractor on February 19, 1957, covering 1 environmental chamber costing $15,950. An emergency priority was assigned with delivery to be made within 120 days after date of contract (delivery date established as June 19, 1957). As of August 9, this item had not been received, nor had any followup been made. The contracting officer said it was the requisitioning office's responsibility to let him know if delivery was delinquent. The requisitioning office said it thought the contracting officer followed up without being told. Inquiry disclosed that the item was needed to complete the laboratory but that no real emergency was involved. At the time the laboratory was established, some 200 to 300 requisitions were marked "emergency" and sent to the procurement office since it was felt that, unless the "emergency" tag was assigned, funds could not be obligated prior to the expiration of the appropriation.

Too much time is allowed to elapse before the contracting officer issues needed contract modifications. On November 29, 1956, the Navy awarded contract N140 (131)–59783B amounting to $176,353 for constructing tanks for hydrogen peroxide.

Contract modification No. 1 issued February 26, 1957, called for extensive design and engineering changes involving additional cost (though after 5 months a revised figure had not been incorporated in the contract nor had an extension of contract performance time been agreed upon). At the time of the staff's examination of this case (July 1957), time was drawing close for final delivery under the original delivery schedule. The contracting officer did not know whether or not a time extension would be granted as a result of the above modification. Neither the contracting officer, the inspector, nor the contractor knew the exact performance-time status. In some instances, problems occur which prevent prompt issuance of modifications; however, efficient contract administration cannot be exercised if conditions such as the above are allowed to exist.

Another point on this general subject that deserves attention is the lack of justification in support of contract modifications. Modifications examined showed only a reference by number to pertinent contract clauses that authorize modification of the contract when certain conditions prevail. However, citation of a contract provision does not convey justification per se for the action taken, but merely sets out the right to act.

"Back up" data in the contract files were not developed or formalized. It is not believed the contracting officer can under such circumstances exercise prudent judgment in his decision as to the propriety of issuing contractual modifications, nor can an audit or survey group make a comprehensive review. Further, the Navy Regional Accounts Office cannot intelligently make payment (where additional money is involved) in the absence of adequate supporting information

A comprehensive review of the overall effectiveness of the various audit organizations of the three departments was not undertaken. A study of audit, survey, and review procedures of the Navy shows that its programs are not geared to provide optimum assistance in the management and administration of department activities.

As of November 14, 1957, the internal audit staff consisted of some 24 military and 204 civilian personnel. Budget estimates propose a gradual expansion until 1963, when a staff of 700 would be reached. With 1,811 activities to be serviced, a target cycle has been set to audit all major offices every 2 years and other offices every 3 years; however, this goal is not being met with the number of personnel now employed. There is a present backlog of some 1,400 audits to be conducted, most of which are in the smaller activities. It is recognized that sole emphasis in these audits is not on contract matters. The contract function, however, receives substantial attention during the course of such studies.

The Procurement Review Board, consisting of 2 officers and 3 civilians, conducts a review of all aspects of procurement activities. It operates on a 4-year cycle, meaning that a period of 4 years elapses between regular examinations given to an office. The group has operated 2 years and his reviewed half of the 10 principal field activities. The staff recommends that:

1. A determination be made as to the manpower needed to insure thorough, aggressive, and systematic audit programs.
2. The necessary manpower be provided.
3. Adequate procedures and plans to place such programs in effect be devised.

Such audits should, among other things, include:

1. Negotiation practices followed and adequacy of price support.
2. Proprietary item classification.
3. Method and timeliness of handling price redeterminations.
4. Effectiveness of contract administration, including review of contract modifications and justification therefor.
5. Methods and timeliness in dealing with delinquent contractors.
6. Contract terminations.

It is understood that an intradepartmental committee is now reviewing program activities to determine the extent of overlap, if any, between the Internal Audit and the Procurement Review Group.

The Navy Bureau of Supplies and Accounts Manual lists 23 documents that may be included in the contract file and states further that they should be filed in chronological sequence. The staff found a hodge-podge filing arrangement in several of the installations visited. Documents were loosely inserted in a single or double folder. Sometimes as many as five double folders were needed for a single case. Consequently, with a number of people handling the files from day to day, there was no document sequence, much less date sequence. Many of the files were unnecessarily voluminous because of extra copies of documents in the file. Extra copies of contracts, invitations to bid, and duplimat stencils of the invitation doubled the size in some cases. It is recognized that there is a need for a reasonable supply of extra copies of these types of documents until the contract is completed and payment made. They should not, however, be kept in the contract file. The staff found no instances where any effective review of the files was made to remove extra copies prior to their being forwarded to a Naval Records Management Center for long-term

retention. The present system of bundling files "as is" results in unnecessary storage and other retention costs, in addition to rendering them materially less usable in connection with current contract matters.

D. ARMY

The principal deficiencies in contract administration highlighted in the last report have been corrected. The files examined contained complete data except in a few isolated cases. At the Signal Supply Agency in Philadelphia, two cases of omission of cost analysis were noted. Other missing documents were "Notice of Cancellation of Items" and "Negotiation for Increase in Price for Acceleration of Delivery."

Transportation Corps Supply Maintenance Command, St. Louis (TCSMC), fell into the same error, as noted in the last staff report, of not keeping the personnel charged with contract administration properly informed. The resident inspector rejected an item only to be informed by the contractor that TCSMC considered the item acceptable and had so informed the contractor by telephone. This decision was made wthout either the inspector being notified or the contract being amended by formal modification to reflect the specification relaxation.

VII. CONTRACT TERMINATION

Regulations of the Army and the Navy provide for termination of contracts, whether for convenience or default, by the procuring contracting officers within the scope of his delegated authority.

In contrast to the practical approach noted above, the Air Force regulations provide in effect for a middleman at AMC (designated a termination contracting officer) through whom the procuring contracting officer must work in the event of a recommended termination for default. Prior to issuance of a termination for default notice, investigation by the AMC Readjustment Staff Division must be made. Although field offices also have Readjustment Staff Divisions, no authority is vested in them for default termination. The situation in Europe is very similar in that the AMC counterpart, AMFEA, retains all authority for investigation and termination for default.

In stipulating these controls, the AFPI provides as follows:

Section 8–2002 (a):

> It is Air Force policy to use default cancellation procedure when a contractor has not complied with the terms of the contract and, as a result of such noncompliance, cannot deliver to the Air Force the supplies and services called for under the contract in the manner and within the time in which the Air Force has need for such supplies and services.

Section 8–2003 (a):

> Within the continental United States, the authority to cancel contracts for default of the contractor will be exercised only by a termination contracting officer specifically designated to cancel contracts for default by the Chief, Readjustment Staff Division (MCPPJ), Hq. AMC.

The necessity for the Air Force having different regulations is seriously questioned by the staff, particularly in view of reprocurement delays, added costs to the Government, and the ineffective control of delinquent suppliers. During the fiscal year 1957, 237 Air Force contacts were submitted to AMC for default investigation. This

number constitutes less than 1 percent of the delinquent contracts for the same period. Two questions arise: (1) How were the Government's requirements satisfied while these 237 contracts were under investigation? and (2) Why were only 1 percent of the delinquent contracts submitted to AMC for default investigation?

The answer to the first question is that reprocurement cannot take place until the investigation is completed and termination is authorized by the central authority. This action takes an average of 90 days but, in some cases, such as summarized below, may require many months, during which time fulfillment of the requirement is held in abeyance.

The answer to the second question is that the Air Force regulations have the effect of impeding rather than assisting the procuring contracting officer in taking the orderly and timely action necessary to properly and effectively deal with such delinquencies. His authority lacks finality, and thus is created the tendency to withhold the final punch necessary to administer the contract in a businesslike manner. This tendency results in the Government bearing the costs and inconvenience incident to most cases of contractor delinquency. It is not the intent here to suggest that all delinquencies should result in termination for default and the assessment of damages against contractors, but rather to place the subject in proper perspective in order to reduce to a reasonable point the Government's inconvenience and costs.

Instances of costly delays, cannibalization of expensive equipment, and even grounding of aircraft were brought into focus as having resulted from failure to either reprocure or effect timely adjustment of delinquent contracts.

An Air Force AMA awarded contract AF 34(601)–2811 to a dealer in surplus equipment on March 28, 1956, for 425 fuel pumps and 5,503 fuel pump diaphragm assemblies. One other bid was received. Delivery terms were: 20 percent within 150 days, complete within 210 days. As of October 15, 1957, no acceptable pumps or diaphragm assemblies had been received under the contract. The contractor could not meet the requirements as the items which he attempted to deliver were of an earlier configuration than those that had been declared surplus and sold by the Air Force several years before. The contractor was without means for adequate correction.

At what point is it advisable to terminate a contractor's right to proceed and procure from another source? Or is the investigation for default by AMC, with its demonstrated delays before reprocurement, more important than reprocurement? Should not the need and availability of the item itself dictate the answer? It is believed that the answer is obvious.

In this case, as in the majority of similar cases handled by the Air Force, the need for timely reprocurement is dwarfed by regulations on termination. While the one hand was attempting to get an impossible delivery, the other was cannibalizing pump assemblies to keep engines running. Work stoppage on engine overhaul lines, due to lack of this item, was reported at three AMA's. Whole fuel pump assemblies were being provided by one AMA at a cost of $270 each when only the $3.95 diaphragms were needed. A plane was dispatched from Eglin Field to pick up 100 pumps—but only the diaphragms

were needed. The shortage was even felt abroad where complaints were heard that IRAN (Inspection and Repair as Necessary) of J–35 engines at a contractor's plant in Holland was delayed for lack of these same fuel pumps.

Timely reprocurement of new (not surplus) diaphragm assemblies could have been made at a very nominal increase in cost from the other source (1 cent per diaphragm), and neither the original contractor nor the Government would have suffered loss as compared to the excessive costs both in dollars and in time as related above. Emergency procurement at this late date, however, will result in an increase of 55 cents each owing to the necessity of accelerated production.

On February 4, 1955, an Air Force depot awarded contract AF 30(635)–3365, based on urgency, for amplifiers in the amount of $41,240, to 1 of 7 bidders. Delivery of the first item was to be made within 90 days. By July 15, 1955, no attempt had been made by the contractor to supply the first item. Instead, he wrote that an error existed in price and asked an additional $15,000. On November 7, 1955, he asked for an increase of $33,385 because of Air Force delay.

On February 29, 1956, more than a year after the contract was awarded, the contractor wrote the Air Force depot:

> Your administration of this contract is disgraceful. Your vacillation between ordering us to perform in one letter and threatening to terminate for default in another and then retracting your intention to terminate and ordering us to proceed with completion in 60 days has us completely confused.

He further stated that this ridiculous behavior should be aired to the public through Congress.

Reprocurement under the Air Force system could not be initiated until such time as AMC completed its investigation and default action was taken. It was not until August 6, 1956, that the contracting officer was authorized to—and in fact did—send a notice of default to the contractor terminating his right to proceed. A reprocurement contract was subsequently entered into at a price of $94,610 or $53,370 more than the original for delivery to begin nearly 2½ years after the delivery date of the terminated contract. And it all started from an urgent requirement. Thirty-nine letters were written between the various Air Force offices and the contractor regarding the delinquency even though it was obvious early in the contract period that the contractor could not or would not deliver in accordance with the contract. If the need for the item were really urgent, a 2½-year delay would certainly destroy the effectiveness of the procurement.

In Europe an Air Force spokesman said:

> There is a definite tendency on the part of contracting officers to avoid the ordeal of default investigation by AMFEA prior to reprocurement.

During the 3 calendar years 1954 through 1956, only 50 cases were referred to AMFEA for investigation of which 18 are pending and only 2 resulted in default. This constitutes a very small percentage of the delinquencies in Europe.

An example of costly delays in Europe is contract AF61(514)–580 which was awarded in June 1953 for pressure gages and landing gear for delivery to begin in 5 months and to be complete in 330 days. To date, no delivery of these items has been made, and the requirements have been filled through the costly process of shipping from the United States. Timely action on this delinquency could surely have brought

about a more satisfactory solution. The contract has been under investigation for possible default by AMFEA during its 3 years of delinquency and is now in the process of termination for convenience.

Article 11 of standard form 32, which is a part of most Air Force contracts, provides that the contracting officer may terminate the whole or any part of the contract if the contractor fails to make delivery or perform the services within the time specified, or if the contractor fails to make progress so as to endanger performance of the contract in accordance with its terms, and so forth. It also provides that the contracting officer may reprocure from another source in the event the contract is terminated and the contractor's liability depends upon whether his failure arises out of causes beyond his control or is due to his negligence.

The regulations of the Air Force provide in effect that the contractor's liability is to be determined prior to termination and that final determination must be made by the central Readjustment Staff Division. This places the contracting officer and requiring office in the position of waiting out a lengthy investigation, usually involving considerable correspondence and travel, before the article or service can be reprocured.

Contractors doing business with the Government are usually familiar with article 11 of standard form 32 and expect businesslike performance by the Government.

A contracting officer vested with the authority and responsibility for the original procurement should also have authority to determine if and when the circumstances require termination for default. The decision as to reprocurement should also be made by the contracting officer.

A spokesman for the Air Force said that the reasons for requiring investigation by headquarters prior to taking termination and reprocurement action were (1) to hold to a minimum the number of contractor claims and appeals and (2) to prevent premature default terminations.

Regarding (1), statistics on the cases before the Armed Services Board of Contract Appeals show that of a total of 751 formal appeals received by the Department of Defense during the 1957 fiscal year only 126 contended that default terminations were improperly taken. In this connection, it is of some interest to note that of 91 such appeals disposed of by DOD during that same period in only 18 instances was the decision of the contracting officer overruled. Further review of these same statistics disclosed that, despite the time-consuming requirement for the AMC Readjustment Staff Division investigation, the Air Force percentage of "overrulings" was greater than that of either the Army or the Navy where no such requirement exists.

Regarding (2), the staff recognizes that a centralized review of all proposed terminations for default may have the theoretical advantages of assuring, so far as practicable, equality of treatment of all contractors under the same or comparable circumstances, with the attendant protection of contractors from overzealous contracting officers. However, it is submitted that an average of 90 days for the AMC Readjustment Staff Division to reach a final decision on a

specific case is so lengthy as to render the entire procedure of questionable value.

During fiscal year 1957, 237 cases were investigated at AMC for determination as to whether termination should be for default and hence for which damages should be assessed against the contractors. Such action was held proper in only 60 of those cases. The 237 cases are only 1 percent of the total contracts on which deliveries were delinquent. It is highly questionable that program delays and other interference suffered by the Government for lack of timely action on these contracts were offset by benefits resulting from the unwieldy procedure.

In a memorandum dated April 23, 1957, to the Deputy Director of Procurement, AMC, from Deputy Chief, Readjustment Staff Division, relative to delinquent contracts it is stated:

> While MCPR (Deputy Director of Production) may be able to develop additional techniques to help this situation it is nevertheless believed that the greatest obstacle is the reluctance or refusal of procuring contracting officers to take timely action incident to recommending default investigation. It is the procuring contracting officer * * * who is charged with the responsibility of referring cases for default to MCPPJ (AMC Readjustment Staff Division) for default investigation.

It further states that most procuring contracting officers are prone to take a calculated risk that a delinquent contractor will eventually deliver.

There is no doubt that authority and responsibility properly placed would materially facilitate timely reprocurement. Any necessary investigation to determine the contractor's liability should be made after and not before termination if the Air Force is to cure its contract delinquency ills.

Termination procedures as practiced by major prime contractors for the Air Force also afford some reason for concern.

A subcontractor to a large airplane manufacturer, under Air Force contract AF33(600)-31525, fell dangerously behind schedule in the production of body sections, increasing the prime contractor's final assembly hours and material costs. Despite two downward adjustments in the program, the subcontractor failed to support the schedule.

The subcontract was terminated for convenience and the work transferred to another firm at an increase in price of $100,000. Cancellation for convenience estopped the collection of the increased cost from the initial subcontractor. In advising the Air Force of the action taken, the prime contractor in a letter dated June 21, 1957, stated: "There is a negligible cost difference between termination for default and termination for convenience."

In a billion-dollar program, perhaps $100,000 is too minute to be be considered—but to the taxpayer it is a lot of money. Under the type of contract then in effect, this excess cost was charged directly to the Government and not offest against the prime contractors' profit.

In the Air Force plant representative's file on this case the following statement appeared:

> It is the opinion of this office that the prime weapon system contractor has not properly managed this phase of the subcontract program.

But nothing was done about it. The delinquency was not even called to the attention of the prime contractor.

VIII. Government-to-Government Agreements

A. PROBLEM AREAS CREATED

Government-to-government agreements have been entered into by the United States through the Department of State with several European countries. They provide under varying conditions that contracts to which the United States is a party will be placed directly with the government of the country in which the contract work will be performed, which government will then subcontract the work to the producer.

People familiar with the negotiation of the agreements have informed this staff that the agreements have been required by the host countries primarily because they desire to retain substantive control of the business dealings of their subjects; that responsibility for negotiating and administering the contracts also passes to the host country. Some of those interviewed feel that the host country can negotiate a lower price than can the United States.

Staff review of a number of procurement actions coming under the government-to-government agreements has pointed up certain features of this method of contracting which are contrary to sound procurement practices. These are:

1. Contracting with a host government interjects an additional layer of administrative responsibility which tends to slow up not only the original negotiation but, also, the resolution of any difficulties that may arise during the period of contract performance.

2. Certain countries do not make available to the United States contracting officer sufficient cost data to permit an adequate evaluation of the proposed prices. Likewise, delivery dates are not guaranteed, the host countries agreeing merely to use their best efforts to achieve the contract delivery schedule.

3. None of these contracts contain the "Examination of Records" clause, whereunder the United States General Accounting Office would be afforded access to the directly pertinent cost records of the actual producer. Omission of this clause makes it virtually impossible to ascertain the producers' actual cost experience or to verify estimates of anticipated experience or for the GAO to perform its other normal contract-review functions.

4. The nature of these agreements points up the possibility that a foreign government (particularly when the articles being procured are for use in some other country) may have no incentive to negotiate the best possible price. This situation was noted in a Facilities Assistance Contract (DA–91–557–EUC–189) containing a proviso that, if any items of facilities cost less than had been estimated, the savings would revert to the United States Government. The host country then proceeded to make subcontracts with private contractors (the record does not reveal any real negotiation) for the full-face amount of its contract with the United States. When asked to supply information as to the actual cost of the items for which we were to pay, there was furnished merely the subcontractors' billings to the host government.

5. Various governments impose a charge for all contracts placed through their supply organizations purportedly to cover costs of

administration. In one case, the United States has been charged as high as 14 percent for straight purchase-type contracts and 22 percent for construction contracts. It is difficult to see how such charges reflect actual out-of-pocket costs, even though some inspection services may be furnished in each instance. In any event, the staff was unable to locate any real support for the varying percentages negotiated, and, from discussions held, concludes that none exists.

6. Although there is an agreement between the United States and the United Kingdom permitting the United States royalty-free use of patents held by the United Kingdom, the United Kingdom has adopted a policy of charging its subcontractors an amount included in the price to recover the research and development costs which preceded the securing of the patent. Where the contract is with the British Ministry of Supply, it has proven extremely difficult to ascertain not only the amounts but even the existence of these costs, and to lodge an objection with the British Government. It is understood that the United Kingdom's position is that the agreement mentioned earlier was intended to allow royalty-free use at only the government level (i. e., on work performed in government-owned facilities, such as shipyards and aircraft plants). At the conclusion of the staff's study of the matter (late August 1957), it was evident that the United Kingdom did not intend to alter its stand.

In countries not requiring government-to-government agreements (West Germany, for example), the contracting officers of the United States negotiate directly with the actual prospective contractors and accordingly appear to be in a better position to secure for the United States the best possible business arrangement. The subsequent administration of such contracts is likewise facilitated. This direct negotiation is also the practice in the Far East.

It is not possible to determine the amount of money that the government-to-government method of contracting costs the United States, but the above summary of facts leads to the conclusion that excessive costs are being paid. It is recommended that those responsible for entering into and modifying the government-to-government agreements in behalf of the United States (i. e., the Departments of State and Defense) weigh carefully in future negotiations the relative costs to the United States to be expected from the various methods of contracting under consideration, and that every effort be made to obtain authority for the United States to contract directly with the supplier.

B. NO-PROFIT PROVISIONS

The staff noted that certain of these agreements contained provisions to the effect that the host government, as a consideration for the execution of the agreement, waived any actual profit therefrom. This is specifically true with respect to the agreements with the United Kingdom, Italy, and Spain which were the only agreements studied by the staff. Each of the first two agreements is, we believe, reasonably clear that corporations either wholly Government-owned or Government-controlled (through Government ownership of a majority of the stock) are included in the concept of "government." The agree-

ment with Spain does not contain this language. In each of the three agreements, it is provided that—in calculating the realization of profit—all contracts shall be considered collectively.

Following are summaries of cases in these countries in which the staff has concluded that the no-profit provision of the basic agreements may not have been strictly adhered to.

The Bureau of Ships, Department of the Navy, entered into several contracts for the repair of ships with a firm the stock of which is owned 99½ percent by the Italian Government. This firm, in turn, subcontracted approximately $35 million of the prime contracts to three subsidiaries, each controlled by the parent corporation. The prime contracts all provide that the prime contractor will realize no profit, but specifically exempt the three subsidiaries from this provision allowing a maximum of 8-percent profit to each of the three subcontractors even though it is clear that the subcontractors are controlled by the prime contractor, which, in turn, is almost wholly owned by the Italian Government.

Although no direct contact with either the Italian Government or the prime contractor or subcontractor was made in an attempt to secure a statement of their views, the Bureau of Ships files, which this staff has been advised are based on conversations with each, disclose the following:

> Our records indicate that this exemption was included in the prime contracts at the insistence of the prime contractor. The subject was a crucial point in our negotiations and one on which they almost broke down entirely. The Bureau contracting officer conducting the negotiations finally conceded that there was no other way to make the contracts in Italy, and that the advantage to the United States Government in making such contracts was worth more than the concession. The contracting officer realized that some of the profit might accrue to the benefit of or shift back as dividends to the Italian Government. Nevertheless, the prime insisted that the shipyards and manufacturers involved must make a profit regardless of who owned the stock, the reasons being that the firms were taken over by the Italian Government after the war through corporate holding companies, in order to supply them with adequate working capital necessary for them to operate in competition with other commercial firms in Europe, and that for the firms to remain in business and attract private capital they must make a profit.

The staff found no reason to believe that the proportionate share of profit earned by the subcontractors ($2.8 million based on the 8 percent maximum) would fail to find its way back to the prime contractor, and, in turn, to the host government. The staff cannot evaluate the various considerations that prompted the two governments to negotiate the agreement they did, but does find it difficult to excuse the contracting office (Bureau of Ships) for negotiating contracts in clear violation of said agreement and at a cost to the United States of almost $3 million.

A procurement center in Europe entered into a contract in behalf of the United States with an Italian firm for certain ammunitions. The contract price was almost $8 million, which price included a profit factor of 5 percent, aggregating about $390,000. The stock of this firm is owned by the Italian Government through a holding company which owns all of the shares and is, in turn, completely owned by the Italian Government.

The record available to the staff contains no indication of the reasons why the contract was permitted to include any profit allowance,

although the inference is fairly clear that the contracting office was simply not aware of the facts of the corporate structure of the contractor and possibly not even of this pertinent provision of the government-to-government agreement. Discussion with the key personnel at the procurement office failed to shed any further light on the matter.

In each of the foregoing cases, the staff understands that negotiations toward some recovery of the improper profits have, for a very considerable period of time, been underway at the diplomatic level; but no conclusion has been reached, and the matter is now considered to be in what can best be described as an inactive status. Since the agreement with the Italian Government has a profit refund cutoff date of June 30, 1956, it appears extremely unlikely that any recovery can actually be expected.

The Bureau of Ships entered into a prime contract with the Spanish Government—pursuant to the government-to-government agreement—for the modernization of certain Spanish naval vessels. That Government, in turn, subcontracted the principal portion of the work—about $20 million exclusive of the value of the Government-furnished equipment to a subcontractor; and, although the prime contract contained the no-profit clause, the subcontract contained no such provision even though the prime contract specifically extended the no-profit clause to agencies and departments of the Government. Moreover, it appears without question that the subcontractor is owned and controlled by an institute which, in turn, is an agency of the Spanish Government. Since the United States was not a party to the subcontract, direct action in our behalf was somewhat difficult, but a series of meetings were held between the Bureau of Ships contract administrator and responsible officials of the Spanish Government which resulted in an agreement that the no-profit ban would apply to the subcontract work performed by the subcontractor. This resulted in a saving of at least $1 million to the United States, assuming a profit factor as low as 5 percent, even though it must be noted that this amount should never have been placed in jeopardy in the first place.

At about this same time, however, the Navy Bureau of Yards and Docks, through its prime contractor for the construction of certain airbases in Spain, negotiated with the same subcontractor for the construction by subcontract of certain dock facilities at El Ferrol, Spain, to support the airbases.

Although it appears clear that this work was subject to the provisions of the government-to-government agreement with Spain, and although the record discloses that the Navy Department was aware of the position with respect to profit for the subcontractor taken by its Bureau of Ships in the aforementioned contract, the Bureau of Yards and Docks authorized its prime contractor to enter into a subcontract in which the record of negotiation recognizes that the subcontractor is being allowed a profit on the total amount of the subcontract work, which is expected to aggregate several million dollars. It is of interest to note that this particular subcontract was negotiated without any competition being secured, and that the only real measure of the reasonableness of the price is its comparison with estimates prepared for the Navy by its CPFF architect-engineer and

CPFF construction contractor, each of whose fixed fees are determined basically by the cost estimates each prepares and who consequently have little incentive to develop a closely priced estimate.

In any event, the two case histories summarized above illustrate diametrically opposed conclusions reached by bureaus of the same department from essentially the same basic facts. When it proves impossible for one service to achieve internal coordination leading to consistency of policy within that service, lack of understanding among the three services should occasion no great surprise. So far as the staff could ascertain, the Department of the Navy considers each of the above matters closed.

IX. Miscellaneous

The matters mentioned in the following paragraphs came to the staff's attention during its review of procurement activities. They do not relate to the procurement areas previously discussed, but they do show other factors which have resulted in increased or unnecessary costs, failures to get timely deliveries, and additional administrative expense.

A. SNOWPLOWS

Lack of firm specifications and delay in starting procurement action prevented timely acquisition of badly needed snowplows for use at northern Air Force bases for two successive winter seasons.

In June 1955, a purchase request for 40 snowplows was submitted, indicating delivery was required for use in the 1955–56 winter season. Inadequate specifications delayed the solicitation and contract award until October 4, 1955. Although scheduled between November 24, 1955, and January 4, 1956, the first deliveries were accomplished in February—too late.

In April 1956, a purchase request for 99 more snowplows specified delivery in time for use in the 1956–57 winter season. Again, specifications became a problem to the extent that the solution would delay deliveries beyond the coming winter season. Although two bids had already been received, the decision was made to readvertise with delivery to be accomplished in September or October 1957. At about the same time the Air Force, realizing that previous delivery requirements had been unrealistic, included the 1957–58 winter requirements in the new procurement and purchased 150 snowplows instead of 99.

It is significant to note that the readvertisement, with a realistic delivery schedule, produced 4 responsive bids instead of the previous 2, with the low unit price $2,419 under the previous low bid. This meant a saving of $362,850 on 150 units. If the Air Force had not finally permitted sufficient lead time, premium prices would have been paid for the snowplows.

B. MATERIEL REQUIREMENTS LIST AND QUALIFIED PRODUCTS LIST

Two important factors contributing to delays and additional costs in the overhaul of United States Air Force aircraft and engines in the European theater are (1) materiel requirements list (MRL) and (2) the qualified products list (QPL) for Europe.

The MRL is a list of items expected to be needed in a specific overhaul program. The MRL specifies whether the items are to be furnished by the Government or by the contractor. If furnished by the contractor, the items must meet Air Force specifications, either by current tests or by earlier tests. If tested previously and found adequate, the item will have been put on the qualified products list for Europe. The QPL for Europe is a list of items which have been tested and found to meet Air Force specifications. This engineering evaluation is necessary before the product is acceptable to the Air Force.

The weakness of the MRL in European contracts has been the fact that they were prepared in the United States and were based on overhaul experience in this country. Although suitable for domestic contracts, they were inadequate for European contracts because many items readily available in the United States and, therefore, coded "local purchase" were not available at all in Europe, making it necessary to initiate belated procurement action in the United States. One of the prime reasons why items coded "local purchase" are not available on the European market is the delay experienced by manufacturers in getting their products on the QPL. This delay was attributed primarily to a lack of engineering personnel at Headquarters, USAFE, Wiesbaden, Germany.

C. GOVERNMENT-FURNISHED PROPERTY FAILURES IN EUROPE

The largest single factor causing delinquency of Air Force contracts in Europe was the failure of the Air Force to meet its contractual obligations in providing Government-furnished property (GFP) in a timely way to the various contractors. Of 17 delinquent contracts observed in Headquarters, AMFEA, 10 of them (59 percent) were found to be short in GFP. This is an indication that the supply directorates were either too optimisitc of their ability to support the GFP types of contracts or that breakdowns occurred in the process of providing the necessary materials. The resultant delays may mean costly inconvenience or disruption to vital programs, and, in one contract observed, the delay occasioned by GFP failure meant an additional cost which had to be borne by the Air Force.

In a contract with a European government for the overhaul of J–65 jet engines, it was agreed by the parties to the contract that the Air Force did not deliver the necessary GFP in time for the contractor to perform in accordance with the contract schedule. Labor hired in sufficient quantity for the schedule requirements met with enforced idleness. Over 25,000 wasted man-hours were chargeable directly to lack of parts in J–65 contracts. The pro rata share of this added cost increased the Air Force contract price by $941 for each of 30 engines, a total of $28,230. This additional cost attributed to GFP failure amounted to 24 percent of the original price.

D. QUALIFICATIONS OF USAFE PROCUREMENT PERSONNEL

Procurement activities in Air Force bases in the European theater have been seriously handicapped by the assignment of inexperienced personnel. The low level of experience has resulted in unsatisfactory performance of the procurement mission in the USAFE Command, comprising about 50 different bases.

An Air Force analysis of the qualifications of USAFE procurement personnel, completed in January 1957, disclosed that 68 percent of the officers and 32 percent of the airmen had no local procurement experience prior to their assignment to the theater. Most of the experienced officers in the command were trained in the theater, but the more experience they gained, the closer they were to transfer to another assignment. Thus, the experience is lost to the theater. During fiscal year 1958, 59 percent of the officers and 41 percent of the airmen are scheduled for rotation. If they are replaced by inexperienced men, as has been the practice in the past, present deficiencies and difficulties will continue.

The lack of experienced officers would be alleviated if they had the support of well-qualified civilian personnel, but such is not the case. The civilians are indigenous employees who are less productive and require more supervision than United States personnel. They are handicapped by language difficulties and some are by nature not as productive. The purchasing and contracting offices are in 12 different countries, some in remote locations with poor communications and poor market areas. They are often far removed from the next echelon of command and without the benefit of supervision and guidance. Under these circumstances on-the-job training opportunities are extremely limited and at some bases probably nonexistent.

The survey indicated a USAFE procurement man is faced with many serious problems that will tax his ability. Those problems include government-to-government agreements, foreign government controls, status of forces agreements, tax agreements, language difficulties, foreign business techniques, lack of qualified products, and lack of suppliers on the local scene.

The unsatisfactory condition of USAFE procurement activities and the lack of experience of procurement personnel were the subject of official Air Force comment as early as June 1956, but steps to improve the situation have been slow. The study completed in January 1957 was reported in an "uncoordinated draft" on March 22, 1957. During the staff visit to Headquarters, USAFE, in August (5 months later), the matter was still in an informal discussion stage, and the coordinated report was not ready for submission to Headquarters, USAF, until August 23, 1957. The final report reflects some actions taken by Headquarters, USAFE, to furnish more guidance to the procurement personnel. It also made a number of recommendations to Headquarters, USAF, including one that no procurement officers be assigned to the command unless they were fully qualified in their Air Force specialty code and had extensive experience in local procurement.

There is a grave doubt that the resources of the Air Force can support this recommendation. In the past, personnel requisitions for procurement men were filled with people who did not meet the qualifications specified. The explanation given was that qualified men were not available in the Air Force. Another condition that may prevent needed improvement is the trend toward civilianizing procurement positions in the United States. Over a period of years, this policy will decrease the pool of experienced military replacements for overseas procurement activities. Thus, a move to improve

procurement in the United States may have a detrimental effect on overseas procurement as the civilians are not subject to compulsory overseas tours of duty.

E. STABILIZATION OF TOURS OF DUTY

This staff and the three services have been in agreement that high rates of turnover of procurement personnel seriously affected the efficiency of procurement functions. During the 1956 survey the Army advised the staff of the issuance of Army logistics directives on February 2, 1956, and April 10, 1956. These directives provided for stabilized tours of duty of military personnel in key procurement positions to a minimum of 3 years and, where feasible, 4 years. The Army key procurement officer report for fiscal year 1957 shows that additional effort is needed as the goals are not being reached.

Reports from 5 of the technical services show an average tenure of only 15.9 months for the 111 military positions reported. The Ordnance Corps report showed 8 officers relieved from key assignments during fiscal year 1957, with an average length of assignment of 29.5 months. Five of the tours were less than 3 years, and 1 was only 14 months, although another of the 5 was replaced on a hardship basis.

The Army has not yet corrected the situation found by the staff last year wherein the technical services were using different interpretations of what constituted key procurement positions. In the fiscal year 1957 report, the Ordnance Corps made no report on civilians in key positions, the Signal Corps reported on civilians with grades as low as GS–7, while other technical services reported only on grades GS–11 and above. Guidance in the preparation of the report is still needed.

F. ARMED SERVICES BOARD OF CONTRACT APPEALS

The DOD contracts and subcontracts provide for an appeal by any contractor or subcontractor to the Secretary of the appropriate department from a decision of a contracting officer involving a question of fact. The appeal is referred to the Armed Services Board of Contract Appeals for hearings and recommendation to the Secretary, who—in all cases the staff understands—adopts the Board's recommendation as his decision. The Board comprises individuals from private life and was established to insure full and impartial consideration of the case without resort to the courts.

It became evident in the course of the staff's study, however, that the period of time required for processing an appeal through the Board was becoming so lengthy as to rather seriously impair the effectiveness of the procedure. The following data were furnished the staff:

	1956	1957
Appeals on hand at end of fiscal year	810	1,000
Decisions rendered or appeals dismissed during fiscal year	617	561
Average number of days to process where decisions rendered or appeals dismissed	389	432

The foregoing makes it clear that immediate steps must be taken both to reduce the backlog of pending appeals and to drastically reduce the time required for processing. If this is not done, the procedure will soon lose its value both to contractors and to the Government.

G. R. 1830 ENGINE OVERHAUL CONTRACT

Contract AF 63(231)–577 with a British firm provides for the overhaul of R. 1830 engines used on the C–47 aircraft. A vast amount of Air Force man-hours have been expended in trying to resolve problems resulting from (1) slow contracting action, (2) impossible delivery schedules, and (3) Air Force deficiencies in furnishing material.

The purchase request dated April 15, 1956, indicated a requirement to overhaul 378 engines between September 1956 and August 1957. The contractor was selected, and the terms of the contract were agreed upon in September, subject to AMC approval. Delivery of overhauled engines was scheduled to begin in November 1956. However, AMC approval was contingent on certain changes which required further negotiation. As a result, the approved contract was received by the contractor in January 1957, 2 months after first deliveries were supposed to have started. The contractor was delinquent before he received the contract and had not recovered by August 1957.

This is a GFP contract in which the Air Force was supposed to automatically supply a 6-month level of GFP to support the overhaul work. The Air Force was deficient in the following respects:

1. The material requirements list (MRL) was inadequate. The prime depot failed to ship 398 line items in the MRL. The contractor tried to buy the items in Europe without success as the qualified products list in Europe was inadequate to support the purchase of needed items.

2. Some GFP shipped to the contractor was improperly packaged, in need of repair, and, in some cases, pure scrap.

3. Some requisitions for parts were erroneously returned unfilled by the United States depot. Reinstatement of the requisitions was time-consuming.

Only 59 engines were overhauled under this contract by July 1957. This was so far below the planned program that expensive emergency measures had to be invoked to get serviceable engines by airlift from the United States in attempting to keep the C–47's from being grounded in Europe.

A REPORT TO THE COMMITTEE ON APPROPRIATION, UNITED STATES HOUSE OF REPRESENTATIVES, ON THE PROCUREMENT, SUPPLY, AND SURPLUS OPERATIONS, DEPARTMENT OF DEFENSE

PART II. SUPPLY

SUMMARY AND TABLE OF CONTENTS

SUPPLY

I. INTRODUCTION

The committee directive of February 22, 1957, requested, among other things, that investigation be made with a view to determining (1) efficiency in operations of domestic and overseas supply services and (2) methods used in determining quantitative requirements for end items and for spare parts.

The staff inquiries into the efficiency of the supply operations were generally confined to a study of the interservice supply support program, the single-manager plan, the aviation supply support at the base level, and to excess stocks in the inventories of the three services.

The requirements review was concerned primarily with quantitative computations, as affecting current programs.

II. THE SUPPLY SYSTEMS

This section contains brief descriptions of the manner in which the supply organizations in each of the three services discharge their responsibilities.

III. INTERSERVICE SUPPLY SUPPORT PROGRAM

A. GENERAL

Various groups have made recommendations concerning means of improving military supply management. Plans have ranged from minor realinement of functions to establishment of a fourth service to administer common supply activities. DOD, in answering congressional queries regarding one such plan, advised that it had adopted two important improvements, one known as the single manager system (hereinafter discussed) and the other as the interservice supply support program. The principal objective of the latter system is the utilization of the material assets of the military departments, regardless of service ownership.

B. Administration and Implementation of the Program

The Chiefs of Staff signed an interservice supply support agreement in December 1955. Nine commodity coordination groups (CCG) were established and became operative early in 1956. Nine additional commodity areas have since been chartered and about one-half of the total items in the DOD supply system are now covered. DOD claims that success of this program is significant refutation of charges that supplies and facilities are not receiving optimum interservice use. Statistics furnished show some $40 million as the value of interservice transfers accomplished during the period January 1 through June 30, 1957. Staff review of the records supporting this report discloses that only $1,194,433 can be attributed to the operations of this program.

C. Reasons for the Present Ineffectiveness of ISCC Operations

There are three prime factors which have a detrimental effect on this program.

1. Inventory managers are reluctant to release assets which they hold as mobilization reserves or as excess operating stocks because, under the present procedures, reimbursement dollars received from the "buying" service cannot be reinvested to replenish assets and are made available to the "selling" service only through apportionment procedures.
2. Inventory managers decline to buy releasable assets, which may have been in storage for a considerable period, from another service when they can buy new stock at the same price.
3. Because of (1) and (2), inventory managers are not making inquiries to the other services where material is available within their own service for redistribution. This means that expensive redistributions may frequently be made since funds will not readily be available to buy material located closer to the point of need but held by another service.

IV. SINGLE-MANAGER SYSTEM

A. Administration of the Program

Under the single-manager plan, one military department is made responsible for all DOD supply management functions for a particular class of commodities. The system automatically eliminates concurrent buying and selling. It provides that distribution depots of any or all of the services may be utilized by the single manager. The plan is, however, applicable only in the United States.

B. Status of the Program

Seven single managers have been assigned since the program was started in November 1955. Approximately $2.6 billion worth, or 17 percent of the total DOD procurement for materiel and supplies for fiscal year 1957, was purchased and distributed under this program.

C. Development of the Program

Prior to July 1954, the DOD strongly opposed the unification of supplies by categories under one service. The Secretary of Defense, however, in recent testimony before Congress, stated his support for further extension of the plan. Expansion is being strongly opposed by the services, however, on the basis that it would lead to establishment of a fourth service. Interservice supply support program is greatly preferred because it is not disruptive to the independent military supply organizations. The success of the resistance is shown by the fact there have been no commodity groups added since November 1956.

D. OSD Assignments of Single Managers

Extreme difficulty has been experienced in getting the unanimous consent of the services which is required before making single-manager assignments. Navy opposed the assignment of subsistence to the Army, and the Army objected to assignment of medical supplies to the Navy. Assignments are not always made on the basis of the fundamental consideration involved but rather on a compromising rationale of "cutting up the pie." There are seven single-manager assignments in effect. None of them was believed to be sufficiently implemented at the time of the staff study (July 1957) to warrant field studies of their operational effectiveness.

V. AVIATION SUPPLY

A. Air Force

1. DIRECT SUPPORT CONCEPT

The new Air Force direct support concept envisions drastic reduction of stock levels at overseas depots and their eventual elimination. Its success depends upon the as yet unanswered question of the ability to supply requirements through the use of high-speed air and surface transportation. It has been implemented too rapidly and without benefit of cost or capability studies. Some Air Force officers have expressed doubt as to the feasibility of the program. Staff inquiry disclosed there is need for very close surveillance of the program for redistribution of European depot stocks in order to prevent inventories at the bases from falling into the same chaotic conditions as prevailed at the depots.

2. SUPPLY PERSONNEL

There is an acute shortage of qualified personnel, a situation further aggravated by absence of an adequate training program. Even key supply positions have been filled with personnel whose previous training and experience have been in unrelated fields.

Opportunity for advancement in the supply field is limited and officers and airmen are required to enter other fields if they desire to advance their military careers. Much valuable experience is thus

lost to the Air Force. Some top Air Force supply personnel are aware of deficiencies in selection and training of supply personnel. Plans for improvement have been submitted, but so far these have not been implemented or adopted.

3. CATALOGING

Many of the planned benefits have not yet been realized because of delays experienced in implementing the program. Maintenance of elaborate cross-reference catalog libraries at all levels is creating additional costs. Rapidity of changes in aircraft parts and equipment peculiar to one type of weapon creates extreme difficulties in conversion to the Federal cataloging program and may overbalance the anticipated benefits.

4. EFFECTIVENESS OF SUPPLY SUPPORT

The records of base supply operations reviewed by the staff on a worldwide basis disclosed unsatisfactory conditions in the supply support of first-line combat aircraft. The staff observed that cannibalization is a common practice at airbases to hold down AOCP (aircraft out of commission for parts) and ANFE (aircraft not fully equipped) rates which means that the official reports do not reflect the true supply deficiencies. At some bases visited, the staff traced causes for abnormally high AOCP rates to deficient support from supply depots.

5. BITS AND PIECES

From observations by the staff, more work stoppages at base maintenance level can be attributed to the lack of small parts and components, generally known as bits and pieces, than to major high-value items. The complaints received by the staff in the deficiency of bits and pieces supply were so numerous as to justify immediate action by the Air Force.

6. MAINTENANCE SPECIALIST TOOL KITS

Maintenance specialists in the Far East and in Europe advised the staff that lack of the necessary tools and portable test equipment constitutes the greatest single deficiency in the maintenance of aircraft. Random inspection by the staff at base level disclosed that none of the kits examined were more than 70 percent complete and some were only 34 percent complete. Unwise coding of mechanics' tools as local purchase items results in acquiring tools of inferior grade, comparable to the 5-and-10-cent store variety. Professional grade tools required for the overhaul of complicated aircraft are not available for purchase on a worldwide basis. Immediate improvement in the handtool situation requires only a realization of the seriousness of the problem and a desire to take action.

7. EFFECT OF HAVING MULTIPLE TYPES OF AIRCRAFT ASSIGNED TO BASES

Practice of stocking spare parts and ground equipment for several different types of aircraft, both obsolete and current, generates supply problems definitely detrimental to the support of current types of aircraft. Staff inquiry disclosed that many of the older types of aircraft are maintained for the sole purpose of providing combat-readiness training for administrative personnel. There appears to be little

justification for the Air Force's position that pilot proficiency training is required at this time in these out-of-date aircraft.

B. Navy

1. INVENTORY MANAGEMENT OF SPARE PARTS

Staff inquiry into the Navy supply system was largely confined to review of aviation supply operations. Navy has not yet made a clear assignment of inventory management responsibility for spare parts. Insufficient attention has been given to screening stocks to eliminate items no longer needed. Intrasystem transfers of property are excessive.

2. CATALOGING

Supply efficiencies adversely affected by drain on manpower to meet arbitrary deadlines for conversions. Millions of microfilm blueprints in constant use by overhaul and repair operations carry old stock numbers—creating cross-referencing and researching problems.

3. INVENTORY OF CLASS A NAVAL AIR STATIONS

Over one-fourth ($588 million) of inventory is in need of inspection or repair—included in this figure are 5,067 aircraft engines valued at $1 each. The building up in the proportion of reparable stocks to total inventory is indicative of too liberal buying habits and need for more effective inventory control.

4. COORDINATION OF SPARE PARTS AND REPAIR FACILITIES

The remoteness of the principal stockage of spare parts from some overhaul and repair facilities impairs the efficiency of operation and creates unnecessary expense.

5. EXAMPLES OF SUPPLY DEFICIENCIES CAUSING AOCP AND WORK STOPPAGES

This section sets forth a number of examples where the failure to get specific parts has reduced the combat capability of aircraft.

VI. ARMY SUPPLY IN EUROPEAN THEATER

The Army has established at United States Army, Europe (USAFEUR), Communications Zone (COMZ) Headquarters, Maison Forte, France, supply control agencies for each of the technical services in the European theater. Basic organization and responsibility of the supply control agencies are similar and are designed to effect centralized control of the supply mission in the theater.

The supply control agencies, with the exception of the Quartermaster, are inefficient and are not accomplishing the purposes for which they were established. Some of the major technical service depots maintain duplicate stock control organizations and accountable records because of the unreliability of the supply control agency records. An important ordnance maintenance center in western Germany was receiving only 50 percent of items requisitioned from the Ordnance Supply Control Agency.

Inefficient storage practices and methods in certain COMZ depots indicate lack of proper supervision and inspection by COMZ Headquarters.

VII. EXCESS IN SUPPLY SYSTEM INVENTORIES

A. General

Excesses in inventory that exist in the supply systems are probably the major deterrent to the efficiency of the supply services. Identified excess in the Army and Navy alone was $5.6 billion in a total inventory of $35.6 billion as of June 30, 1957. Air Force inventory accounting reports do not reflect full facts regarding excess, but it is estimated that excesses in depot stocks alone exceed $2 billion. Personnel at practically every depot visited both in the United States and overseas complained that retention of obsolete and excess materials was bogging down supply operations. Carrying excess stocks in inventory is costly. It wastes manpower and materiel and uses urgently needed warehouse space.

B. Army

Existence of the military assistance program (MAP) has contributed to excesses in inventory, particularly in the Army, and has provided a convenient crutch for justifying retention of excess and obsolete material in the supply system for long periods of time. Implementation of the modern Army supply system (MASS) has contributed to the buildup of excess inventories in the European theater and has caused hoarding of supplies by the Seventh Army to the point where its mobility is restricted. In addition to an identified excess inventory of $3.7 billion, the Army's $20 billion inventory includes some $3 billion worth of unserviceable stocks held for possible rebuild. Considering the rate at which requirements for such rebuild are being generated, there appears little likelihood any substantial portion will actually be rebuilt. Army is considering a plan known as Elimex which is designed to bring about a reduction of unserviceable excess material.

C. Navy

Navy is carrying almost $2 billion worth of admittedly excess inventory, and there is evidence that a thorough job of identification of excesses has not been done. Sizable accumulations of supplies have not been inventoried for as long as 2½ years. At one installation visited, the staff observed a number of aircraft parts which appeared to be in oversupply. Detailed inquiry concerning 15 items disclosed that, on the basis of Navy estimates of future requirements, all of the items checked are excess and one of them represented a 400-year supply. Because of time limitation, searching inquiry could not be made by the staff, but indications are that a large percentage of the reparables (items requiring inspection and repair) on hand are actually excess to Navy requirements. One major Navy repair point had reparable stocks valued at $43 million on hand at the time of the staff visit. Informed personnel at the location advised that 33 percent or $14 million worth was excess to currently scheduled requirements.

D. Air Force

Air Force accounting reports show only $168 million worth of excess stocks out of a total inventory of $11.5 billion and available data do not permit valid comparisons with Army and Navy situations.

On the basis of staff observations, however, it seems probable that the percentage of excess stocks included in the Air Force inventory exceeds the 18.5 percent which has been identified as excess by the Army. It is apparent that at Osan Air Force Base, Korea, a situation similar to that found in the northeast Air Force bases exists. It is admitted that there are huge stocks of excesses on hand. The supply officer at Osan estimated the stocks contain 12,000 items for which there are no stock records, but information regarding the monetary value of the items is not available.

VIII. REQUIREMENTS

A. General

The determination of materiel requirements is of prime importance in the logistics area. From these computations supply management actions are determined for procurement, redistribution, retention, and disposal. Therefore, it is apparent that an accurate requirement computation is necessary to provide an effective and economical logistics operation.

B. Department of the Army

1. PRINCIPAL ITEMS

The computation of item requirements is made on a supply control study. These studies contain excessive detail and give an impression of exactness not inherent in the data. Staff review indicated that (*a*) unrealistic replacement rates were used, (*b*) asset data applied were untimely and unreliable, and (*c*) items were being procured in excess of stated requirements, indicating a need for timely review of changing programs. The failure to take timely termination action has resulted in wasting millions of dollars. For example, the staff reviewed requirements for the howitzer 155 mm., costing $37,657 each. It was found the quantity on hand exceeds peacetime and mobilization requirements and that 251 additional units are scheduled for receipt from funded procurements. A similar situation exists in the program for the M65 telescope. The unnecessary expenditure involved in these 2 items exceeds $10 million.

2. SECONDARY ITEMS AND REPAIR PARTS

Generally, past demands provide the means for forecasting future requirements. At various installations visited, it was apparent that reported demands and asset data were frequently unreliable and untimely. It was noted also that quantities provided for pipelines and safety levels appeared unrealistic and excessive.

C. Department of the Air Force

1. FLYING-HOUR PROGRAM—PROJECTED VERSUS ACTUAL

The flying-hour program is the element most commonly used in the determination of aircraft spares and spare parts requirements. Staff review of 3 aircraft programs disclosed that the flying-hour programs were consistently overstated in relation to actual hours flown for the period. Although experience should have dictated the issuance of progressively more realistic flying-hour programs, each succeeding program continued to be overstated. This resulted in the

expenditure of funds for spare parts over and above the needs of the program period and the accumulation of materiel in the long-supply inventory. A similar study made by the Air Materiel Command for the F–100 aircraft indicated that approximately $60 million worth of spare parts was unnecessarily procured for fiscal years 1954 through 1956.

2. IMPROVED REQUIREMENTS POLICIES AND PROCEDURES

The Air Materiel Command has developed new policies and procedures for the determination of requirements for spare parts in support of aeronautical equipments. This consists of the "60-day concept" and the "single program approach," both of which are designed to increase effectiveness and reduce requirements for aircraft spare parts.

3. FAILURE TO APPLY IMPROVED PROCEDURES

The formulation of improved procedures without effective implementation at the operating level does not result in improved requirements management. Staff review of spare parts computations for the F–101 aircraft indicated that procurement requirements were not revised downward when improved procedures should have reduced the number of required items.

4. DELAY IN INITIATING AND PROCESSING TERMINATION ACTIONS

A continuing review of all requirements computations, particularly of the more costly items, is essential as a safeguard against overbuying and the resultant generation of excess and surplus. Staff review disclosed that, when such restudy revealed items excess to programed requirements, action to cancel production on contract was not accomplished in a timely manner. In reviewing 31 items, the staff noted delays in processing time ranging from 8 to 317 days in notifying the contractor to stop production. Such failure to act promptly results in increased termination charges and the accumulation of material excess to Air Force needs.

D. DEPARTMENT OF THE NAVY

1. AVIATION SUPPLY OFFICE (ASO)

The computation of requirements is presently being accomplished under two separate systems. Of ASO's 450,000 items, approximately 171,000 items are under the program usage replenishment system (PURS) and 279,000 items are under the replenishment demand inventory system (RDIS). The current policy provides that the PURS system will gradually replace the RDIS system except for general aeronautical materials, which comprise approximately 25 percent of ASO's items.

Although the PURS system did produce the basic tools to enable the requirements analyst to manage the items under his control, the staff found that not all of them were being effectively utilized. One of the products given to the requirements analyst is a card for each item excess to Navy needs with on-order quantities remaining on contract. However, action to terminate excesses had not been taken although these cards were available for almost 3 months. This failure to act promptly results in increased termination charges and the accumulation of material excess to Navy needs.

The RDIS system is not physically capable of producing a gross and net requirement for all the items under its control. Obviously, where the requirements analyst does not have knowledge of the gross requirement, he cannot manage such items.

IX. MISCELLANEOUS

Information furnished to the staff indicates that an Air Force general in an overseas post has been extravagant in the expenditure of both appropriated and nonappropriated funds. Shortly after arrival at his new post of duty he ordered approximately $4,000 worth of hand carved furniture for his temporary quarters. When advised it would not be paid for from appropriated funds he directed payment from civilian housing funds. Remodeling work done on another set of temporary quarters cost $4,953.06. Remodeling of his permanent quarters cost $15,489.19. Records indicate efforts were made to further remodel these quarters at an estimated cost of $41,000. This cost included air conditioning the entire house and the installation of a bidet in each of the three bathrooms. The project was not approved, apparently because of pressure from higher authority.

A second set of quarters was maintained for the general at another airbase 65 miles away. Some $2,730.68 was spent remodeling quarters at this base, and $9,800.86 was spent for furniture ordered by the general, including $445 for a king-size bedstead. This general required the expenditure of funds belonging to the officers open mess to equip his summer quarters with a silver tea service, Waring mixer, "a generously proportioned cocktail shaker," "plain cigarette boxes, to hold three different brands, king-size," "mechanical clocks in each room, with gentle alarms" and a number of other items. Contrary to Air Force regulations he built a bar in his official office space and is alleged to have put a bar in personally assigned aircraft.

These activities, while not involving large sums of money, furnish the basis for much gossip, are destructive to morale, and create an indifferent attitude toward rules and regulations on the part of subordinate personnel.

Glossary of Abbreviations

AFFE	Air Force Far East.
AMC	Air Materiel Command.
ANFE	Aircraft not fully equipped.
AOCP	Aircraft out of commission for lack of parts.
ASO	Aviation Supply Office.
ATC	Air Training Command (Air Force).
CCG	Commodity coordination groups.
COMZ	Communications zone.
CONUS	Continental United States.
DCSLOG	Deputy Chief of Staff Logistics (Army).
DOD	Department of Defense.
ISO	Information services officer.
ISSC	Interservice Supply Support Committee.
MAP	Military assistance program.
MASS	Modern Army supply system.
MIPR	Military interprocurement requests.
MISMA	Major Item Supply Management Agency.
MSTS	Military Sea Transportation Service.
OQMG	Officer of the Quartermaster General.
OSD	Office of the Secretary of Defense.
OTAC	Ordnance Tank and Automotive Command.
POL	Petroleum, oils, and lubricants.
PURS	Program usage replenishment system.
RDIS	Replenishment demand inventory system.
SAC	Strategic Air Command.
SDCP	Supply demand control points.
TC	Transportation Corps.
USAF	United States Air Force.
USAREUR	United States Army, Europe.

I. Introduction

A. DIRECTIVE

The Committee on Appropriations under date of February 22, 1957, directed the surveys and investigations staff to continue the inquiry into procurement policies and practices of the Department of Defense (DOD) initially authorized by committee directive of April 4, 1955. Reports on this matter were submitted by the staff, under dates of January 4, 1956, and January 20, 1957.

While the current inquiry covers, in general, a continuation of the 1955 directive, the committee increased the scope of the assignment to include:

(1) Methods (and effectiveness thereof) used in determining unit costs and quantitative requirements for end items and for spare parts.

(2) Efficiency in operations of domestic and overseas supply services.

(3) Factors which cause generation of surplus property and efficiency of disposal of such surplus property.

(4) Nature and extent of corrective measures taken to improve efficiency in contract operations.

B. SCOPE

The scope of the directive was sufficiently broad that almost any time period ranging from weeks to years could have been allocated for the prosecution of the inquiry. Considering the vastness of the DOD programs, it was believed that a more useful report to the committee could be prepared by defining the scope to be compatible with the time available.

Unfortunately, some areas have not been as fully explored as might be desirable. These include offshore procurement matters, local purchase programs, procurements in connection with military construction projects, problems associated with the generation and disposal of contractors' surplus equipment, and the huge stocks of reparables being carried in the supply systems of the three services.

Some interested persons have expressed the view in past years that the staff reports were devoted largely to an analysis of individual procurements and were silent in regard to overall efficiency or lack thereof. It seems obvious that reviews such as the present one cannot result in complete endorsement of the programs of the services. Equally important, the staff findings should not constitute the basis for condemning operations as a whole.

In the current study, major emphasis has been placed upon reporting broad areas where improvements are most likely to result in substantial savings or to most effectively promote better management. Even though it be assumed that in fulfilling its broad mission the Military Establishment is performing effectively, it does not follow that there is no room for improvement.

The cooperation afforded the staff by the services throughout the inquiry was excellent. The only exception is that the Office of the Quartermaster General still insists upon having legislative liaison representatives waste their time participating in the staff's inquiries. No one has ever explained to this staff why quartermaster personnel need the services of a lawyer while being interviewed by staff representatives.

In the interest of making the findings as useful as possible, the report is presented in three parts, one devoted to each of the major phases of the survey. Data relating to the "Requirements" phase of the study are included in this section which is part II of the report. Operations of the DOD in the fields of procurement, supply, and surplus are so closely related that it has been impossible to cover any one of them without, to some extent, touching upon the others. There is, therefore, a certain amount of unavoidable duplication in the text devoted to each of the subjects.

In conducting the inquiry into supply operations, it was decided, based upon a review of the available material and interviews with officials in the DOD, to concentrate staff efforts in the following major areas:

1. Evaluating the efforts of the DOD to achieve economies and efficiencies in the full utilization of the materiel assets of the military services (interservice supply support program) and in assigning to one military department responsibility for DOD supply-management functions for a particular class of commodities (single-manager plan).

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2. The efficiency of aviation supply in the Air Force and Navy, with particular emphasis on the ability of the Air Force bases to obtain essential parts and other supplies in order to maintain a maximum readiness at all times to perform their mission.

3. The condition of inventories in the supply systems and the adverse effect of large excesses in inventory upon the efficiency of supply operations in the military services.

4. The efficiency of the Army's supply system in the European theater. Implementation of the "Modern army supply system" (MASS) program concurrent with the centralization of supply control management responsibility in Maison Forte (France) indicated selection of this area for attention at this time.

5. The study of requirements was concerned primarily with quantitative computations. Staff review necessarily was confined to current programs and guidance for the computation of requirements at selected areas.

In our efforts to obtain information regarding the above matters, staff members interviewed officials, both military and civilian, at the DOD Headquarters, Washington, D. C. Interviews were conducted and surveys were made within various field installations and operating groups responsible to the foregoing officials in the United States and European and Pacific theaters such as Army headquarters, posts, camps, and stations, naval and marine air stations, and naval bases and fleet support activities. Considerable time was devoted to contacting aircraft supply and maintenance personnel actually on the flight line at airbases throughout the world.

II. The Supply Systems

A. GENERAL

The Departments of the Air Force, Army, and Navy operate separate and independent supply systems under the general policy guidance of the DOD. Each of the services has the assigned mission of providing logistic support for its personnel and weapons on a global basis; and in the accomplishment of these missions there have been developed three supply systems, each of which is peculiar to the individual service or department.

The supply systems within the DOD contain over 3 million individual items with an inventory value of over $50 billion. The management of this gigantic stock of materiel is accomplished through 55 inventory control points and 250 major, and numerous minor, supply installations throughout the world. This inventory is composed of stocks required for current operations, reserves for war mobilization, economic retention, materiel for the military assistance program (MAP), and residual stocks.

A majority of the items and supporting spare parts in this inventory are designed and produced to fulfill a specific military requirement. Today's rapid technological advancement in the weapons systems requires efficient supply operations that purge inventories of excess stock and prevent stagnation due to retention of obsolete materiel.

Competent management and adequate surveillance of the military supply systems, which are progressively becoming more complex, de-

mand a corresponding increase in the capabilities of the personnel selected for this very important task. Unfortunately, there is very little glamour in the supply area, and few newspaper headlines extoll the virtues and accomplishments of the supply personnel who support and make possible the achievements of the recordbreaking machines and equipment. Most of the publicity relating to supply consists of derogatory articles highlighting isolated cases of human blunder and supply mismanagement which tend to discredit all supply workers. This type of publicity does a great disservice to a very large group of hard-working, intelligent, and dedicated supply workers and managers who seldom receive recognition for the difficult and important work they are doing.

This underestimation of the importance of supply functions is often reflected in the practices followed by the services. The staff, as a result of its study, believes that more attention should be given to the selection of capable personnel and to the training afforded military and civilian employees engaged in supply operations. The importance of such measures is emphasized by the fact that the supply phase of DOD operations requires approximately 20 percent of the Defense Department budget.

The following brief summaries of the scope and responsibilities of the supply services in each of the three military departments are presented as background information to permit better understanding of the report which follows.

B. ARMY

The Army supply system, operated by seven technical services, contains subsistence items, clothing, weapons, vehicles, ammunition parts, and general supplies valued at about $20 billion. This material, comprising nearly 1 million items, is stored at 250 installations in the United States and overseas. The system is managed through assignment of specified commodities to the technical services that are specialists or experts in their field. For example, the Ordnance Corps handles vehicles and weapons; Quartermaster, food and clothing; engineers, construction equipment; Signal Corps, communications. The technical services operate their own depots or a general depot in which space is assigned to two or more technical service supply organizations.

In the United States, each of the technical services maintains one or more national supply control facilities which handle requests for supplies, reports of purchases, receipts and issues, equipment repair schedules, and work programs. These data are used to compute the national and, in some cases, the worldwide purchase requirement for a commodity or article. After procurement, the goods are shipped to 40 basic storage depots from which distribution is made to the posts, camps, and stations throughout the United States and to the troops overseas through Army port facilities at New York, N. Y.; New Orleans, La.; and San Francisco, Calif.

A variation in the normal system is the "Single storage concept" being tested at Memphis, Tenn.; Sharpe (Stockton, Calif.), and Utah (Ogden, Utah) General Depots. This plan is based on the view that storage functions at general depots can be effectively and economically performed for all tenants and technical services by a combined storage

and materials handling section under the direction of a single chief of storage. The test is aimed at attaining more flexible and effective storage operations, reducing the operating costs of general depots, obtaining greater uniformity in storage operating procedures, and still insuring expeditious supply to consumers.

Officials at the Memphis General Depot consider the test operation very successful and believe that it is a step in increasing the efficiency of the Army supply system.

The overseas system is based on support from depots in the United States, with overseas supply being centralized in the ports of embarkation. Supplies shipped to the overseas commands are received, stored, and issued through general and technical service depots. The overseas commands have their own supply control points, depots, and stations for each of the technical services.

The Army has recently initiated a program identified as the modern army supply system (MASS). This system is based on electronic communication and rapid transportation—airlift and surface—direct to field units. The system has been tested in the supply of repair parts for the Seventh Army's equipment in Europe. MASS is expected to reduce the average time between ordering an item and receiving it from 120 days to 40 days. If this can be achieved, it will be possible ultimately to eliminate the basic storage depots overseas and to reduce the supplies at other stockage points in the European theater.

C. NAVY

The Navy supply system contains some 1,200,000 items valued at $14.5 billion. Approximately 83,200 employees, including officers and enlisted men, are engaged in its operation.

The responsibility for management and operation of the supply functions within the Department of the Navy has been assigned primarily to the Bureau of Supplies and Accounts. These functions are performed through a system of depots and supply activities located at shore installations and aboard ships. All of the major depots, supply centers, and supply-demand control points are under the direct control of the Bureau of Supplies and Accounts. Each field installation (air station, shipyard) is also considered a unit in the supply chain and maintains a supply organization. Trained supply officers are assigned to these organizational units and operate under the control of the administering bureaus.

The Navy overseas supply system has two types of operations: (1) a base-support system for its fleet and airbase throughout the world and (2) a mobile supply-support system for ships at sea. Naval bases overseas receive material direct from United States supply centers and depots for their own support and for transshipment or delivery to ships in port. Major shore installations overseas are responsible to the supply-demand control points in the United States and report stock-status information on all items to these control points for incorporation into supply replenishment data.

The mobile supply-support system consists of two types of vessels: (1) resupply ships which carry a specific range of material and which have stock control authority within the range of the load lists—these transfer supplies in port or at sea to combat and operational vessels

to supplement stocks already aboard—and (2) pipeline vessels which carry material from United States depots and supply centers and deliver it direct to combat vessels (in the case of bulky items) or to resupply vessels for "retail" issue when needed. In the case of fuel, the fleet oil tankers frequently replenish their loads from overseas suppliers under contract.

The system of base support from shore stations is followed in the Pacific area, with a few exceptions; the concept of replenishment afloat is followed predominantly in the Mediterranean, although emergency aviation supply responsibility has been assigned to the air facility at Port Lyautey in French Morocco.

D. AIR FORCE

The Air Force supply system is operated by the Air Materiel Command (AMC) under policy direction of United Air Force Headquarters. Policies and directives emanating from USAF Headquarters are implemented by AMC through specific instructions and procedures designed to manage the system through all levels of the command and depot structure. The AMC translates operations programs and mobilization war plans published by Deputy Chief of Staff, Operations, into specific quantities of materiel.

The major portion of the materiel required to maintain and support the modern air arm consists of items and parts designed and manufactured for specific aircraft and equipment required for its support.

Currently, the AMC worldwide materiel distribution system, involving the management of almost 1,500,000 separate items valued at approximately $12 billion, consists of an air depot complex containing 15 major depots (with 50 million square feet of covered storage space) in the United States, 3 in the European area, and 2 in the Pacific area.

The customers of this worldwide organization are the flying and ground-support groups of the Air Force, and the supply system exists to assure their combat readiness at all times.

The AMC has established a "two zone system" in the United States depot complex, which provides for supplying the users' demands from centralized geographic locations. The East Zone supports airbases east of the Mississippi and in Europe, north Africa, and the Caribbean area; and the West Zone supports airbases west of the Mississippi and in Alaska, Hawaii, and the Far East. Generally, each zone has a complete stock of all classes of Air Force property, equitably divided on the basis of their needs. Under the zonal system, an item of material is stocked at only one eastern depot and at only one western depot. One depot in either the East or West Zone is classified as "prime" for each property class, and its counterpart is referred to as the "opposite" or zonal depot. Each Air Force depot in the United States has primary supply control and distribution (prime) responsibilities for some classes of Air Force property, with secondary stockage and distribution responsibility for others. Major exceptions to the two-zonal principle of operation are:

1. Missiles and spares which are stored at sites and at contractors' plants.

2. Classes of property assigned to the single point distribution control system (hand tools, hardware, etc., which are stored, controlled, and distributed only by the prime depot).

3. Weapons systems management—a concept which aggregates a complete range of organizational and field maintenance spares, including ground handling equipment, for direct support of an air vehicle. The management of supplies and materiel stored at Air Force bases is a local responsibility under the guidance of the parent command.

The Air Force supply systems in the Pacific area and in Europe are under the direction of AMC, Dayton, Ohio. In the Pacific, a headquarters establishment is maintained in Hawaii with depots at Clark Air Force Base, Philippine Islands, and Tachikawa, Japan. European headquarters are maintained at Wiesbaden, Germany, and Air Force depots are located at Burtonwood, England, Chateauroux, France, and Nouasseur, north Africa.

Plans for phasing down the latter are briefly discussed in this report under the caption "Aviation supply."

III. Interservice Supply Support Program

A. GENERAL

The section of this report devoted to excess property and part III of the staff report which is devoted to "Surplus personal property" offer some evidence of supply mismanagement. The existence of the deficiencies cannot be seriously questioned—arriving at the reasons why they exist and determining with certainty the steps to be taken to overcome them are not easily established. Numerous independent studies of these problems have been made and various recommendations for improvement have been advanced.

These recommendations have ranged from minor realinement of functions to the establishment of a fourth service to administer common supply and service activities. This staff does not presume to evaluate such suggestions. Congress has, however, recently evidenced considerable interest in one of them, and certain data concerning it have been made available to the Congress by the DOD.

This particular plan recommended the establishment of a separate civilian-managed agency reporting directly to the Secretary of Defense. Its sponsors maintained that its implementation would eliminate unnecessary waste resulting from duplicate stocks, distribution systems, facilities, and overhead personnel and the concurrent buying of supplies by one service while another service is in long supply of the same material.

The DOD did not concur in the above recommendation, but has advised Congress that it has adopted two important improvements in its supply operations, specifically designed to enhance efficiency and economy and to eliminate unnecessary duplication.

One of these programs provides for interservice supply support, and covers all items in the DOD supply system that are common to more than one service (other than single-manager assigned items). Services and supplies hitherto available only to the units of the owning department are, under this arrangement, now available, also, to

the units of all departments in the same geographical area which may have requirements for these services and supplies.

The other improvement referred to in the DOD supply operations is known as the single-manager system and is hereinafter fully discussed. Under this system, the Secretary of a particular military department is designated to perform all supply-management functions for the supply of a particular commodity, such as food for all military services. This assignment embraces a complete supply cycle, including standardization of specifications, cataloging, net requirements' determinations, procurement, inspection, inventory management, positioning, receipt, storage, issue, transportation, maintenance and disposal.

In July 1955, the Defense Department issued DOD Directive 4140.6 establishing the interservice supply support program. Its purpose is to provide uniform direction for coordinated action among the military services in furtherance of the following objectives:

1. Minimizing procurement, stockage, and cross-hauling of material assets of the military services.
2. Avoiding duplication of effort through joint utilization of the capabilities of each military service to provide services incidental to the supply of materal.
3. Utilizing material assets of the military services to the fullest extent practicable, regardless of service.
4. Providing for a systematic exchange of supply-management information necessary for the accomplishment of the above objectives and thereby functioning within the established organizational framework of the miliary services.

B. ADMINISTRATION AND IMPLEMENTATION OF THE PROGRAM

In December 1955, the Chiefs of Staff signed the joint Army, Navy, Air Force, Marine Corps agreement for interservice supply support. An Interservice Supply Support Committee (ISSC) was established, consisting of the senior supply managers for each of the military services. Commodity coordination groups (CCG) were formed, composed of representatives from each service of inventory managers responsible for similar items of supply. Each group is chartered by the committee after developing elaborate procedures which are to best assure maximum utilization of the material concerned.

Interserviceability of items is determined from Federal catalog data. Where an inventory control point reaches a "buy" position on an item which is recorded as interserviceable, the other known inventory managers stocking the item are queried for releasable assets. After evaluation of supplies, the requiring inventory manager either initiates a transfer order or proceeds with procurement. The fundamental objectives of this program are to assure maximum interservice utilization of material and to avoid concurrent buying and selling.

Nine CCG's were initially established and became operative early in 1956. Nine additional commodity areas have since been chartered, covering about half of the total items in the DOD supply system. Plans have also been made for the inclusion of another 18 commodity groups which will cover practically all of the remaining common-supply items (other than single-manager items).

The staff was informed, during briefings at the Office of the Assistant Secretary of Defense (Supply and Logistics), that this relatively new concept (January 19, 1955) of supply support is a significant refutation of charges that supplies and facilities are not receiving optimum interservice use among the military services. This contention was reiterated by the Secretary of Defense in a letter of June 17, 1957, to the chairman of the Senate Subcommittee on DOD Appropriations (appendix A–1), strongly supporting this program which he had initiated some 2 years before in the following terms:

We have also recognized the need for a companion approach for the handling of those items which may not lend themselves to the single-manager concept. To meet this problem, the Department has outlined a program of interservice supply support. This program goes well beyond many of the recommendations on this subject made in various Hoover Commission reports, in that it covers all items in the Department of Defense supply system which are common to more than one service, combat or noncombat. The military services have executed an agreement which provides for an Interservice Supply Support Committee, composed of the top supply managers to implement this system. Services and supplies hitherto available only to the units of the owning department are now available to the units of all departments in the same geographical area which may have requirements for these services and supplies. It also provides for more effective utilization of available stocks, since commodity coordination groups must identify items which are used by more than one military service. These commodity coordination groups must assure that the military services fully utilize each other's available stocks of interservice items to meet requirements. The continuing interservice comparison of assets and requirements now required of these commodity coordination groups screens procurement actions as well as disposal actions.

On October 22, 1957, the ISCC submitted its latest semiannual progress report to the Chief of Staff of the Army, Chief of Naval Operations, Chief of Staff of the Air Force, and the Commandant of the Marine Corps. The report stated:

The program to date has been highly successful. The record is largely the result of enthusiastic acceptance and aggressive execution by the field commands * * *. During the first 6 months of calendar year 1957 commodity coordination groups (CCG's) accomplished interservice transfers of material valued at $40.2 million. This represents the activity of only 17 CCG and is a substantial increase over the $25 million transferred by 9 CCG during the last half of calendar year 1956.

Detailed statistics from this ISSC report regarding CCG activity during the period follow:

Commodity coordination group actions, period Jan. 1 to June 30, 1957

Commodity coordination group	General description	Date chartered	Value, interservice transfers	Total items in class/-group	Total common items	Percentage
1	Electrical and electronic computer.	February 1956	$2,588,754	631,868	79,364	12.60
2	Rope and cable	do	39,372	6,755	1,302	19.30
3	Chemicals	do	21,599	8,692	2,597	30.20
4	Vehicles and components	March 1956	20,278,342	145,422	38,599	26.50
5	Bearings	do	111,270	55,051	13,233	24.00
6	Hardware	do	278,535	688,486	116,868	17.00
7	Construction material	do	173,475	13,977	802	5.70
8	Furniture, office supplies, paper	do	1,050,971	39,777	5,420	13.60
9	Photographic equipment and supplies.	August 1956	490,614	10,190	2,985	29.30
10	Railway equipment; tractors; construction, mining, excavating, and highway maintenance equipment; and conveyors.	March 1957	153,703	50,136	23,147	46.20
11	Material-handling equipment	do	3,454,133	21,517	2,597	12.00
12	Valves	April 1957		26,511	1,257	4.70
13	Electric wire and power and distribution equipment, alarm and signal systems.	do	1,379,427	94,634	9,887	10.40
14	Light fixtures and lamps	do	7,897	25,295	3,994	15.80
15	Metal bars, sheets, and shapes; ores and minerals.	do		19,893	1,480	7.50
16	Refrigeration and air-conditioning equipment.	do	15,393	13,103	1,308	10.00
17	Agriculture machinery and equipment; furnace, steam plant, and drying equipment, etc.	do	4,127	18,848	1,802	9.60
18	Woodworking machinery and equipment, metalworking equipment, etc.	May 1957		45,633	5,020	11.00
	Other		10,162,186	(1)	(1)	
18	Additional CCG's subsequently chartered.			1,270,829	135,877	10.80
	Total		40,209,798	3,186,617	447,539	14.07

[1] Not available.

The percent of item interserviceability shown in this table will show marked increases when certain discrepancies in Federal stock numbers are eliminated as the DOD standization program progresses. These discrepancies are generally attributed to (1) slight variations in descriptions, (2) differences in unit of issue, (3) difference in packaging, (4) differences in sources of supply, and so forth. Already the number of interserviceable items in the first 9 CCG have increased from about 132,000 items at the time the groups were chartered to approximately 260,000 items about a year later. The elimination of errors in stock numbers is being accelerated by the CCG.

In order to provide for a central clearinghouse to collect and compile statistical data covering all interservice supply transactions, an ISSC Records Office was chartered in October 1956 and commenced operations on January 1, 1957. This office is located in the Inventory Control Division, Bureau of Supplies and Accounts, Department of the Navy. It is under the administrative control of the Navy and policy control of the ISSC. To quote from its charter, a primary function of this office is to:

> Maintain statistics, as directed by the Interservice Supply Support Committee, of participation by the inventory managers in the interservice exchange of assets. These statistics will be based upon information copies of interrogation documents, replies thereto and acceptances and rejections and details applicable thereto.

The staff reviewed the records maintained by this office supporting its report that interservice supply support amounting to $40.2 million was accomplished by CCG during the 6-month period. This examination disclosed that the figures set forth in the report are misleading as to the actual extent of interservicing of material that was directly attributable to the ISSC program. Review of the Records Office files disclosed that the interservice supply support credible to the ISSC program during the 6-month period January 1 to June 30, 1957, amounted to a little over $1 million in 9 CCG as shown in the tabulation below rather than the $40.2 million the 18 CCG claimed.

Commodity coordination groups	General description	Date chartered	Value interservice transfers
1	Electrical and electronic components	Feb. 28, 1956	$83,328
2	Rope and cable	do	31,743
3	Chemicals	do	1,042
4	Vehicles and components	Mar. 23, 1956	199,752
5	Bearings	do	111,269
6	Hardware	do	134,255
7	Construction material	do	
8	Furniture, office supplies, paper	do	142,200
9	Photographic equipment and supplies	Aug. 3, 1956	490,814
Total			1,194,433

The inflated results claimed for the ISSC program were obtained by the inclusion therein of transactions outside the scope of normal ISSC–CCG operations. The following are examples of such transactions. The staff was informed that reported transactions having a value of some $20 million were the result of the customary circularization of Standard Form 120 of excess automotive equipment among

the services prior to the material being declared surplus and would have taken place regardless of the ISSC program.

The review of the file of the Records Office further disclosed no supporting data covering more than $5 million credited to the program in commodity groups 6, 7, 8, 11, 13, 14, 16, and 17 on the basis of informal data submitted by the Office of the Quartermaster General (OQMG). The OQMG advised that these transactions did not result from the ISSC program. In fact the transfer of some $3 million of the $5 million of disposable material took place prior to the 6-month period covered by the report. Further evidence of the padding in the ISSC report to make the program appear effective was disclosed by inquiry into the classification "Other" under which some $10 million in transfers were recorded in the report. The staff found that this amount was represented by transfers of weapons and that the Commodity Coordination Group covering weapons was not even chartered until September 1957, 3 months after the close of the period covered by the report.

Another instance of the attempted buildup may be cited. On August 6, 1957, the Army Signal Corps submitted figures for the period on CCG's 1 and 13 reflecting military interprocurement requests (MIPR) activity outside the areas of normal ISSC–CCG operations. These figures indicate the Army transferring to itself material valued at $234,448 which was included in the report as an interservice transaction.

C. REASONS FOR THE PRESENT INEFFECTIVENESS OF ISSC OPERATIONS

While the Secretary of Defense may not have been apprised personally of the obvious ineffectiveness of the program at the time he submitted his letter of June 17, 1957, to the chairman of the Senate DOD Subcommittee on Appropriations, the Office of the Assistant Secretary of Defense (Supply and Logistics) knew at the time the program was not working (appendix A–6 through A–15). Moreover, since that office prepared the Secretary's letter, it appears that a purposeful attempt was thereby made to give Congress misleading information on the effectiveness of this program.

There are several reasons why the program is ineffective:

1. Inventory managers are reluctant to release assets which they hold as mobilization reserve (which should be rotated to prevent deterioration on the shelf) or excess operating stocks because, under present procedures, reimbursement dollars received from the "buying" service cannot be reinvested and are made available to the "selling" service only through apportionment procedures.

2. Inventory managers are reluctant to buy from another service releasable assets which may have been in stock for a considerable period of time when they can buy new stock at the same price.

3. Because of (1) and (2), inventory managers are not making inquiries to the other services when material is available within their own service for redistribution. This means that expensive redistributions may frequently be made since funds will not readily be available to buy material located closer to the point of need but held by another service.

Examples of how (1) the apportionment process, and the lack of direct reimbursement, and (2) DOD stock fund regulations stifle the facile transfers of supplies and equipment:

1. In June 1957, Navy General Stores Supply Office queried Transportation Corps Supply and Maintenance Command, Army, for 4,200 feet of chain. The Transportation Corps had 2,800 feet available at one depot which was sufficient for 1 year's requirement. They could have offered 2,000 feet and rebought to stock a coastal depot which could have corrected a maldistribution situation, provided the reimbursement had been automatically available for obligation. Negative reply was given Navy in view of funding situation.

2. In August 1957, Army, OQMG, queried Navy Bureau of Ordnance for availability of steel pallets required for storage of nitric acid. After getting an affirmative reply, two MIPR's were placed on Navy purchasing office—one for 600 pallets and one for 300 pallets. On September 18, 1957, Pueblo Ordnance Depot notified OQMG that they urgently needed 600 pallets in October to store incoming shipments. OQMG telephoned Bureau of Ordnance who agreed to transfer 600 but refused transfer of the other 300 previously agreed upon even though they were available, because of no assurance that they would be able to get money to replace the pallets. On October 1, 1957, Bureau of Ordnance again refused to agree to an interservice transfer of a new requirement for 2,000 pallets although available because they could not be assured of getting the money back for stock replenishment.

3. The Air Force had a requirement for 53,500 55-gallon oil drums at Cartaret, N. J. Air Force stocks of these drums were located in California. Since it would cost the Air Force approximately $142,000 to transport the drums from California to New Jersey, the Air Force made a request to the Petroleum Division, OQMG, to supply the Air Force requirement from Quartermaster Corps stocks located at the New Cumberland General Depot. Transportation from New Cumberland General Depot to Carteret would approximate $25,000. Since the Air Force did not have funds to purchase the drums from Quartermaster Corps, the Air Force proposed to exchange drums located in California for drums located in New Cumberland. This proposal would have been advantageous to the Petroleum Division since it had west coast requirements for drums but no requirement for drums on the east coast. The Petroleum Division, however, was stopped from going ahead with this transaction at the time (December 1956) because such transfers violated DOD directive 7420.1 on stock funds which precluded interdepartmental exchanges of inventories, in kind.

The Deputy Chief of Staff for Logistics (DCSLOG), in a letter to OQMG, declined to approve the proposed transfer. Five months later DSCLOG approved the transfer. This action was taken by the Army without prior approval of the Office of the Secretary of Defense (OSD). The drums were due at the New York port on June 15 (filled with gasoline), and time would not permit any further delay. In the meantime, the ISSC submitted a recommendation to OSD that its policy be amended to provide for the exchange of assets, in kind, so as to facilitate interservice supply support. This matter is still under consideration by OSD.

D. ISSC OPERATIONS AT THE RETAIL LEVEL AND IN OVERSEAS AREAS

1. RETAIL LEVEL

The dollar value of interservicing accomplished at the retail or station level for the period January 1 to June 30, 1957, as reported by Area Coordination Groups consisting of representatives from the military services within each Army area, amounted to $10.9 million. This figure includes reimbursement for cross-servicing that has been going on over the years, not only among the military services but also with civilian agencies, such as certain food inspection at post, camp, and station level by the Department of Agriculture.

The lack of effectiveness of the interservice supply support program at the wholesale level exists also at the retail level. This is pointed out in the following quotation from the Chairman, ISSC memorandum of July 22, 1957, sent to the Assistant Secretary of Defense (Comptroller) via the Assistant Secretary of Defense (Supply and Logistics):

> As a result of recent visits to meetings of three area coordination groups which monitor and facilitate interservice supply support activity at the retail level, the Interservice Supply Support Committee has determined that current reimbursement practices preclude maximum cross-utilization of assets at this level. Further evidence of this is outlined in detail in enclosure (1). This letter describes the problem as seen by retail activities in attempting to develop interservice agreements.
>
> The Interservice Supply Support Committee recognizes that both the addressed offices are attempting to resolve this problem. However, in these days of tight budgetary control, it is now obvious that the success of the entire interservice program depends largely on early revision of fiscal policy to permit direct reimbursement between buyer and seller, or an acceptable alternate procedure.

Closely allied to the program of cross-servicing of supplies and services among the services is the utilizatiton of commercial sources to furnish such supplies or services whenever practicable and in the best interest of the Government (DOD Directive 4100.15). One program is carried on under the operational control of the ISSC and the other under the direction of the Assistant Secretary of Defense (Supply and Logistics). There is apparently very little coordination in administration of the two programs. Before attempting interservicing, it is incumbent upon the services to determine whether the supplies or services are adequately available commercially. At many installations insufficient effort has been made to ascertain comparative costs of commercial-type operations being carried on by the services with the costs from private enterprise. Even when comparative costs have been taken that show lower costs by private contractors, delay and inaction frequently take place. An illustrative case in point is the following chronology of events with respect to the operation of a garrison bread bakery at Fort Dix, N. J.

During the period January through May 1956 a survey was conducted by Fort Dix to determine if it would be economically sound to continue the operation of the bakery or have their needs supplied by commercial sources. The survey showed that:

(*a*) The cost of bread baked at the QM bakery averaged 11.2 cents per pound for the period.

(*b*) The lowest commercial quotation was 10 cents per pound.

(Fort Monmouth, N. J., was procuring bread at 9.6 cents per pound at that time.)

(*c*) Commercial sources could supply the fort's current requirements of 160,000 pounds per month and were able to meet mobilization requirements in the event of an emergency.

(*d*) The majority of the bakery equipment currently in use at the station (value approximately $75,000) was outmoded and would need early replacement in order to continue baking operations.

(*e*) From a palatable standpoint commercial bread is more tasty and will meet Government specifications in quality.

On July 28, 1956, the commanding officer, Fort Dix, wrote to the commanding general, First Army Headquarters, as follows:

*** * * a study of the post bread bakery is forwarded with the recommendation that based on current cost of commercial bread, it is more economical to cease operations of the post bakery and have bread needs supplied from commercial bakeries.**

On October 24, 1956, the commander, Fort Dix, again wrote the commanding general, First Army Headquarters, requesting a reply his proposal.

On December 13, 1956, the commanding officer, Fort Dix, was informed that the Quartermaster General had decided that the base bread bakery should be continued. The communication indicated that the decision to continue was for the training of troops.

This decision was made despite (1) the fact that training for bread-baking is normally carried on in field-type bakeries and not in garrison bakeries, (2) the requirement of the Defense Department's policy of getting out of unwarranted commercial-type operations as enumerated in DOD Directive 4100.15, and (3) the clear intent of Congress with respect to the operation of bakeries by the military services as indicated by the following section which appears in the last 3 Department of Defense Appropriation Acts.

None of the funds appropriated in this act shall be used for the construction, replacement, or reactivation of any bakery, laundry, or dry-cleaning facility in the United States, its Territories or possessions, as to which the Secretary of Defense does not certify in writing, giving his reasons therefor, that the services to be furnished by such facilities are not obtainable from commercial sources at reasonable rates.

2. Overseas Areas

The dollar value of interservicing accomplished at the overseas commands aggregated $125.2 million during the 6-month period January 1 to June 30, 1957. These figures include a variety of logistic service agreements as well as the interservicing of supplies. However, while the total appears impressive, the predominant amount of interservicing is in single-manager areas of subsistence and to a lesser extent petroleum, oils and lubricants (POL) material. For example, the report of the Army European Command for the first 6 months

of 1957 gives the following recapitulation of supply support furnished by that command:

(*a*) To Air Force:	
Reimbursable	$21,969,347
Nonreimbursable	299,823
Total	22,269,170
(*b*) To Navy:	
Reimbursable	273,158
Nonreimbursable	159,690
Total	432,848

Of these amounts, subsistence and POL accounted for the following amounts:

To Air Force (reimbursable):	
Subsistence	$15,607,331
POL	1,644,672
To Navy (reimbursable):	
Subsistence	56,636
POL	27,730

As indicated with respect to the wholesale and retail levels of the ISSC program, practically all of the interservice supply support that is taking place overseas is the result of existing theater agreements established prior to the ISSC program. As a case in point of the lack of follow-through in the objectives of this program, this staff noted that a series of Navy requisitions for aviation spare parts were en route from Port Lyautey, French Morocco, to Norfolk, Va. The point was raised whether the material was available at the Air Force Base at Nouaseur (approximately 100 miles distant). No attempt had hitherto been made to determine what material could be cross-serviced between these two aviation activities.

IV. Single-Manager System

A. Administration of the Program

In marked contrast with the Interservice Supply Support Committee concept of maximizing interservice utilization of materiel and facilities and the avoidance of concurrent buying and selling, within the present organizational status quo, was the establishment of the single-manager system for major categories of common-use items and services. Under the single-manager plan, on military department is designated as being responsible for all DOD supply-management functions for a particular class of commodities or services from research and development through procurement, stock control, financial management, distribution, issues, and disposal.

The single-manager system automatically eliminates concurrent buying and selling since there is only one designated inventory manager of wholesale stocks. Each service computes its own requirements,

but the single manager collates them and determines the net procurement requirements. The single manager enters into procurement and performs contract administration for centrally procured items. He determines those items to be procured locally. The individual service administers local procurement contracts and finances such procurement from its own retail stock fund. There are two stock funds for each commodity assignment. The single-manager stock fund finances wholesale stocks. The retail stock fund is established within each military service and finances retail stocks secured from the single manager or from local purchase.

Storage and issue of all centrally procured items are effected by the single manager. The plan provides that distribution depots of all the military services may be utilized by the single manager. The plan is, however, applicable only within the continental United States.

Upon designation as a single manager, a military department makes appropriate organizational arrangements for carrying out its responsibility through an operating agency headed by an executive director. The director is chairman of an administrative committee, composed of representatives of each military service and of the offices of the Assistant Secretaries of Defense (Supply and Logistics, and the Comptroller). Military personnel on this staff come from all the military services; civilian staff members are supplied by the department having the single-manager assignment.

B. STATUS OF THE PROGRAM

The program was set in motion in November 1955 when the single manager for subsistence was designated. This was followed in quick succession with single-manager assignments for clothing and textiles, medical material, land-traffic management, petroleum products, sea transportation service, and airlift transportation service. Photographic equipment and supplies were to be placed under a single manager but were subsequently chartered as commodity group No. 9 on August 3, 1956, under the interservice supply support program.

Single-manager assignments account for sizable budgetary expenditures. DOD procurement for material and supplies during fiscal year 1957 totaled some $15 billion. Of this amount, approximately $2.6 billion, or 17 percent, represents the portion procured under single managers. While this material represents only about 2 percent of the total number of supply-system items, it accounts for about 20 percent of the total receipt-and-issue line items.

The status of the single-manager assignments according to OSD were as follows:

1. Subsistence: Assignment given to the Secretary of the Army, November 1955. The Military Subsistence Supply Agency was established effective July 1, 1956. Implementing procedures were approved by OSD on October 6, 1956. Procurement and issue of subsistence to all military services have commenced.

2. Clothing and textiles: Assignment given to the Secretary of the Army, May 1956. The Military Clothing and Textile Supply Agency was established effective July 1, 1956. Implementing procedures were approved by OSD on November 8, 1956. Procurement for the mili-

tary services commenced on January 1, 1957. This assignment became operational on July 1, 1957.

3. Medical material: Assignment given to the Secretary of the Navy, May 1956. The Military Medical Supply Agency was established effective January 1, 1957. Implementing procedures were approved by OSD in the latter part of November 1956. Procurement for the military services commenced on January 1, 1957. This assignment became operational on July 1, 1957.

4. Land-traffic management: Assignment given to the Secretary of the Army, May 1956. The Military Traffic Management Agency was established effective July 1, 1956. This assignment became operational on July 1, 1957.

5. Petroleum: Assigned to the Secretary of the Navy July 1956. The Military Petroleum Supply Agency was established effective January 7, 1957. Implementing procedures were approved by OSD on December 21, 1956. This assignment became operational on July 1, 1957.

6. Sea-transportation management: Assignment given to the Secretary of the Navy, May 1956. While the Military Sea Transportation Service (MSTS) was established as a single manager effective May 28, 1956, there is no significant change in the MSTS setup that began in 1949.

7. Airlift transportation management: Assignment given to the Secretary of the Air Force, November 1956. The Military Air Transport Service will not be fully operational until July 1, 1958.

C. DEVELOPMENT OF THE PROGRAM

The establishment of the single-manager concept was a sharp break with traditional independent inventory control and distribution operations by each of the military services. The program did not come into existence, however, as a planned and evolutionary process as DOD now indicates. Actually, the Department completely reversed the position it had previously announced about the value of unification along single-manager lines. On July 27, 1954, the Assistant Secretary of Defense (Supply and Logistics) addressed a letter to the chairman of the Military Operations Subcommittee of the House Committee on Government Operations (appendix A–16) attacking the validity of the concept of unification of supplies by categories under one service. The Department contended that this was a fragmentary approach to considerations of military supply management and that, since all material is divided into 17 broad categories in the military, independent supply systems for each category, if established, would consequently result in 17 different and separate systems where 4 then existed. The letter further stated that no studies using a so-called commodity segment approach would be carried on by OSD.

It is noteworthy that the Department's break with tradition in the setting up of single-manager plans occurred at the time that DOD was under severe criticism from Congress with respect to alleged nonconformance with the O'Mahoney rider (sec. 638, 1953 Defense

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Appropriations Act).[1] It was also at the time of the publication of Hoover Commission reports, which recommended much more drastic unification measures. However, the present DOD official version of this background is that:

> **The single-manager concept stemmed from staff studies initiated in early 1953, on past proposals and existing systems of supply for common-use commercial-type items. These studies culminated in the issuance, on November 4, 1955, of the first single-manager community assignment—that for subsistence.[2]**

The Secretary of Defense in recent testimony to Congress stated his support for the further extension of single-manager plans for categories of common-use items and services. Within the military services, however, the expansion of single-manager plans is being strongly resisted. It is contended that extension of single-manager plans to a number of material categories, such as commercial vehicles and general supplies, and to such services as communicationss and hospitals would inevitably lead to the creation of a single service of supply. Consequently, the interservice supply support program is greatly preferred as it is not disruptive to the independent military supply organizations.[3]

The attitude of the military service toward the extension of single-manager plans is reflected in the fact that there have been no further assignments by OSD since November 1956. In addition, no studies have been made since that time to determine the feasibility of making further assignments. This situation, however, has recently been changed. The Secretary of Defense issued a directive dated October 7, 1957, which requires that a critical appraisal be made of all the principal arrangements for coordinating the supply and logistics systems of the military departments in order to assess the benefits which are resulting and to plan ahead on further steps to improve the integration of supply and logistics systems.

D. OSD ASSIGNMENTS OF SINGLE MANAGERS

As indicated, the military services are reluctant to transfer any part of their established supply systems. It is extremely difficult, therefore, for the OSD to secure unanimous service support before making single-manager assignments. The Navy for example, opposed the assignment of subsistence to the Army. On the other hand, the Army objected to the assignment of medical and dental supplies to the Navy. As a consequence, assignments are not always made on the basis of the fundamental considerations involved, but rather on a compromising rationale of "cutting up the pie." This attitude was especially noted in the assignment of medical and dental supplies. Prior to the Navy's becoming the single manager for this material, the Surgeon General of the Army had the storage and distribution mission for both the Army and the Air Force. This support amounted to approximately 75 percent of all the military medical and dental supply requirements. In addition to the Army's having predominant logistical interest, it had considerable experience in supporting the

[1] House Committee on Government Operations hearings in May 1955 on the Hoover Commission Report on Food and Clothing.
[2] Department of Defense Progress Report, February 1957, on Hoover Commission Recommendations.
[3] Address given on December 17, 1956, to the Industrial College of the Armed Forces by Rear Adm. R. J. Arnold, Chief of the Bureau of Supplies and Accounts, Department of the Navy.

Navy requirements for these supplies. At the direction of OSD, the Army conducted a study for more than 3 years—July 1951 to November 1954—to determine whether it would be feasible for that service to distribute medical supplies to all the military services in the Pacific Ocean area. Although, within its guidelines, the so-called Alameda test [4] proved operation under Army direction to be successful, medical supplies were placed under the single managership of the Navy.

Another factor that OSD did not consider sufficiently important in making this assignment was the matter of distribution costs. The composition of medical and dental supplies (other than one-time requirements, such as equipment) consists generally of material having small bulk and weight. The recurring demands from military installations are seldom required in carload quantities. The cost of shipment of these supplies from Navy depots to Army and Air Force installations must usually be at less-than-carload lot freight rates. On the other hand, if shipments of the same material were made to these installations from Army depots, they would be consolidated with other supplies that are of large bulk, such as nonperishable food, and thereby secure the benefit of carload freight rates at a substantial savings to the Government. There appears, therefore, to be no logistical justification for assigning this material to the Navy. Apparently, the determining consideration was that subsistence and clothing and textile materials were assigned to the Army and, to balance these actions, medical, and dental supplies were assigned to the Navy.

None of the single-manager assignments were found to be sufficiently implemented at the time (June–July 1957) to permit the staff to make field studies of their operational effectiveness. In view of the nebulous state of the procedural development of the assignments, this part of the study was deferred.

The considerable period of time required by the designated military services to get the respective single-manager plans into operation was generally attributed to the number and complexity of the preliminary problems involved that had to be worked out. It is nevertheless apparent that the implementation of the assignments should move forward at a much faster pace.[5] For example, implementation of the assignment to the Army as the manager for subsistence took place in November 1955. At that time the Army was performing all of the major supply functions for the Air Force that are required under the single-manager system. Only the Navy and the Marine Corps subsistence supply programs had to be brought under the new system. In other words, over three-fourths of the total DOD expenditures for food was in effect already under the single-manager setup. Yet some 2 years later the Army still did not have in effect a geographical area distribution pattern in which one depot would supply all consuming activities in the same areas, and thereby eliminate duplicative distribution systems, as envisioned as one of the primary objectives of the single-manager plan. To illustrate this point, the Navy Supply Center, Norfolk, Va., receives its nonperishable food requirements from the Army General Supply Depot, New Cumberland, Pa., or directly from vendors, as directed by the single manager. The Norfolk Supply Center, in turn, con-

[4] The Alameda test was initiated at the request of the Bonner subcommittee of the House Committee on Government Operations, 82d Cong.

[5] Appendix A–20 through A–34 contains extracts from a report prepared by the Army Historical Records Office relating to the background and the reconciliation of divergent views among the military services in both the establishment and defining responsibilities of a single manager for military traffic management.

tinues to fill the requirements for this material to all Navy consuming activities that were satellited on it prior to the establishment of the single managership. Thus in the Washington area, for instance, Norfolk Supply Center furnishes nonperishable food to the Anacostia Naval Receiving Station, Bethesda Naval Hospital, and the Naval Academy at Annapolis. On the other hand, the Army Quartermaster Depot, Richmond, Va., is supplying the same material to Fort Myer, Walter Reed Hospital, Andrews Air Force Base, and all other Army and Air Force activities in the Washington area.

A further indication of what appears to be unnecessary delay and procrastination in getting the single-manager assignment for subsistence into full and effective operation is that the OSD has not yet requested Congress to consider the enactment of legislation for a uniform ration law. In fact, the services prepared a draft of such a bill and submitted it to OSD early in 1956. A uniform ration law is a fundamental prerequisite to having an effective single-manager supply system for this material and would have an impact on every supply function from requirements determination to final usage. The single manager, trying to operate without such a law, is confronted with situations like the following ones.

Brig. Gen. T. B. Evans, Assistant Quartermaser General for Subsistence, at an interview with the staff on July 5, 1957, pointed out that the inventory of overage 1953 and 1954 pack of nonperishable food that was still in Army depots was mostly caused by material that was transferred from the Navy when the Army became the single manager. General Evans further explained that this inventory was being liquidated as rapidly as possible by having the food served to troops at frequent intervals. This is done by means of master menus that the Army prepares. Such an arrangement, however, is only partially effective in quickly using up this overage food because the master menu system, while applicable to the Army and Air Force, is not used by the Navy which operates under its own independent ration law. In other words, because of the lack of a uniform law which OSD has yet to request from Congress, only the Army and Air Force are required to eat this overage food that originated with the Navy.

The staff review at McClellan Air Force Base, Sacramento, Calif., revealed that in fiscal year 1957 the local procurement office had procured over one-half million dollars worth of drugs and medical supplies for shipment to 26 medical accounts in the Pacific area (3 of these accounts represent shipments of commonly used items to medical depots in Japan, the Philippines, and Alaska on a 30-day replenishment cycle). The local purchase of medical requirements has been increasing each year at this base where it was estimated that there will be a substantial increase in fiscal year 1958. Some of the supplies are procured in Sacramento and others in the bay area. All are shipped to McClellan Air Force Base, Sacramento, and then hauled daily by Government vehicle to Travis Air Force Base, Fairfield, Calif., for air shipment to the Far East (shipments to Alaska are shipped to McChord Air Force Base, Tacoma, Wash., via commercial means).

Over 98 percent of this one-half million dollar business is shipped via air. In other words, these "local purchase" medical supplies for the Pacific areas and Alaska are physically moved from the source of

procurement through Sacramento (in one warehouse door and out another with only visual inspection to see if the item received was the item ordered) to the airport of debarkation.

It was assumed that this centralization and control at McClellan Air Force Base was due to possible combined utilization of base stocks for the base hospital with overseas requirements, but this staff learned that this is not the case. Overseas requirements were purchased independently even though the item may be in long supply in the base medical warehouse. The reason given for this noninterchangeability was fiscal.

On the other hand, when this staff interviewed personnel at the Pacific Logistics Terminal and Fort Mason, Calif., it was brought out that all Army and Navy requisitions for medical supplies, standard and nonstandard (listed and nonlisted), went to the single-manager setup at Sharpe general depot for shipment from a stock or procurement. From the figures supplied by the Office of the Secretary of the Army, the Army medical shipments to Pacific areas are moved over 99 percent by water and less than 1 percent by air.

If the single-manager concept for medical supplies were intelligently reviewed and fully implemented, these purchases could be eliminated with the attendant savings in shipping overhead and possibly lower prices. The excuse advanced for the purchase of such items locally was that these items were nonlisted in the catalog, which means that the user does not have to requisition such supplies from the single manager, but is free to procure such items on its own. From orders for such nonlisted items reviewed, it was apparent that many of the items purchased should be included under the cognizance of the single manager to take advantage of quantity-buy prices, prepositioning of stocks, transportation savings, and elimination of duplication of effort.

V. Aviation Supply

A. AIR FORCE

1. Direct-Support Concept

In 1956, and again in 1957, the Air Force and AMC were criticized by the committee for the inefficient operation of the Air Force depots in the European area. Early in the current inquiry it came to the staff's attention that a change in the manner in which the three European depots were to be employed in the Air Force supply system was in progress.

On April 3, 1957, the Air Force Subcommittee of the Committee on Appropriations, House of Representatives, was informed by Maj. Gen. F. J. Dau that:

> In line with our objectives to promote supply support effectiveness worldwide, we are progressively integrating the oversea depots into our plan for management improvement. However, as I reported to you last year, the real improvement is that of supporting our principal weapons directly from the United States. In both Europe and the Far East, this is being done progressively. Not only have all rotational units been placed under direct support, but also as new type aircraft are deployed, they, too, come under the same concept. Thus we will gradually and prudently eliminate the need for oversea depots.

The direct-support concept, as expressed by Maj. Gen. Dau, contemplates an increase of authorized stock levels at overseas air bases, a minimum of reliance upon replenishment support from centralized overseas stockage points and direct shipments to the overseas bases by air and surface from the prime depots located in the United States.

Officials at Headquarters, USAF, when initially contacted by the staff in May 1957, denied any knowledge concerning a definite plan to implement the program described by General Dau. Personnel at AMC had, however, permitted staff representatives to review a comprehensive plan for the European area designed to accomplish the goals delineated by General Dau. This fact was made known to USAF headquarters, and it appears that the inquiries made by the staff resulted in AMC's advising headquarters of the activities already underway in Europe. In any event, shortly thereafter Air Force officials in Washington freely discussed the situation.

Air Force officials advised that the plan was conceived and developed in great part by personnel of the Air Materiel Forces, European area, with the assistance of AMC, Dayton. It was pointed out that USAF Headquarters approval of the plan was not required by regulations and it obviously was not obtained before the plan was put into operation. The staff was also advised at USAF Headquarters that some Air Force officials in Europe were opposed to the drastic changes contemplated and many complaints were heard to the effect that implementation of the direct support concept had been too rapid. Staff inquiry disclosed that its adoption was not supported by cost studies and that surveys had not been made to determine whether the available facilities of the Military Air Transport Service and the Military Sea Transport Service would be adequate to provide the rapid transportation which is the very essence of this system of supply support.

Sponsors of the program claim that the new support concept has been adopted to eliminate, or at least alleviate, some of the inefficiencies and wasteful practices inherent in the centralized storage concept. Some Air Force people opposed to the operation have termed it typical of the Air Force—"If your present operation is under fire, develop a new one." One responsible Air Force employee advised the staff that the overseas supply operation was in such a chaotic state that AMC was forced to do something quickly and the new plan resulted.

The staff inquired as to the plans which had been made to redistribute the huge stocks existing at Burtonwood, Nouasseur, and Chateauroux. Details were not furnished, but assurance was given that materiel in these depots would not be dumped on the bases but would be redistributed only as requested by the bases to fulfill requirements. Assuming such plans have been made, there is evidence that they are not being properly followed. It was found for instance that 1 base in England had received spare parts and equipment valued at almost $3.5 million which were neither requested by nor needed at the base. They could not even be adequately warehoused in the available facilities. The base supply officer advised that he had tried to "turn the trucks around" but had been unable to do so. Other base supply officers also advised that supplies not ordered by them were being sent to their bases. Fear was expressed that if this redistribution is not monitored strictly, all of the bases in Europe will find themselves in the same chaotic condition as existed at the depots.

At the time of the staff inquiries the direct-support concept had not been sufficiently implemented to permit an adequate evaluation. It is believed, however, that by the time Air Force officials appear before the committee in connection with the 1959 fiscal year appropriations they should be in position to advise concerning the relative merits of this new plan as compared with the depot system. The committee may desire to inquire particularly into the redistribution of the stock phase of this matter.

2. Supply Personnel

During the course of the survey the staff made inquiries concerning the capabilities of the personnel assigned to the supply functions at the airbase level. The degree of efficiency and effectiveness of the base supply support directly affects the combat readiness of our aircraft. The inquiries disclosed that in many instances the personnel assigned to the supply operations have not had prior specialized training or technical education qualifying them for such assignment. In discussions with supply officers, the staff was frequently confronted with comments that the supply operation was considered to be a soft-core area. This, according to the local definitions, appeared to mean that military personnel who are neither capable nor qualified to do a satisfactory job in other areas can be assigned to supply work. Apparently, this attitude encompasses the officer as well as the enlisted personnel, and follows the fallacious reasoning that personnel with minimum capability and training can satisfactorily fulfill the requirements of supply positions.

The staff was advised at many points that misassignment of military personnel to the supply area was quite common and that apparently the innate talents and civilian training of individuals were not always given appropriate consideration. The staff was informed also that officers and airmen who had spent many years in the supply functions and had reached the top grades in their field were required to cross-train and enter some other field in the Air Force if they desired further advancement in their military careers. This creates a feeling of futility and frustration in those persons who ordinarily would prefer making a full career in the supply service.

Some examples which are illustrative of the comments received and conditions noted by the staff follow:

(*a*) The staff interviewed an officer who had been removed recently from flying duties and assigned as base supply officer. He advised that he had no prior experience in the supply field and knew nothing about the position of base supply officer. He informed the staff that his on-the-job training consisted of trial by fire and that he was responsible for technical guidance in supply areas in which he was without experience or training.

(*b*) At another base, the staff was informed by the supply officer that he was attempting to fulfill his supply responsibilities with only 3 qualified people out of a total of 75 military personnel assigned. The supply-support effectiveness at this base was below the established standards. It was stated in an official report examined by the staff that:

*** * * Ineffectiveness of the base supply operation is directly attributable to the poor skill level of the supply people.**

(*c*) At one base, the supply officer was openly critical of the assignment of the Air Force specialty classification codes. He said the classification codes were not sufficiently specific to provide capable supply personnel. He advised that almost every individual known to him who entered the supply field required on-the-job training, which the bases are not equipped to furnish.

(*d*) At one overseas base visited, most unsatisfactory conditions were observed. Material was scattered indiscriminately around the warehouses, and it was obvious that a general state of confusion existed. The base supply officer admitted that he was in serious trouble but claimed he was unable to obtain personnel qualified to correct the inefficiencies in his operations. The situation, supplywise, at this base was so deplorable that the staff asked the base supply officer to make the situation known directly to United States Air Force, Europe, Headquarters, and to seek the assignment of sufficient personnel to correct it.

(*e*) At another overseas base, the staff found three well-qualified officers in the base supply and management functions. These men had been college trained, and their supply organization was the best noted by the staff. However, these 3 individuals were scheduled for return to the continental United States within 90 days, and the Director of Materiel said there was little prospect of receiving qualified replacements. He advised that replacements were not being trained at the base, and his inquiries have failed to disclose candidates qualified to fill the anticipated vacancies.

Responsible officials at Headquarters, USAF, were questioned as to the methods employed in selecting military personnel for assignment to supply functions. The staff was informed that all airmen receive a period of basic training during which they are required to take certain tests, the results of which are used as a basis for their future assignments in the Air Force. As a result of these tests, the airmen are categorized or indexed from 1 through 7 in accordance with the individual aptitudes demonstrated. Airmen falling within the higher categories (4 through 7) are assigned to such duties as intelligence work, auditing, and jet-engine mechanics. Those falling within the aptitude index No. 3 are eligible for assignment to supply operations, food service, fire fighting, truck driving, etc., since it has been determined that the men in this category possess the minimum qualifications required for entry and progression in the supply field. The Air Force officials did not recognize the term "soft core" as being descriptive of supply personnel and emphasized that they used the term "hard core" as a designation for personnel with technical qualifications required in specialty fields, such as engine maintenance, intelligence, and auditing. Airmen selected for assignment to supply are not required to attend technical schools. The staff was informed, however, that the Air Training Command (ATC) operates technical schools to which selected airmen are sent.

The staff was advised that officers entering the supply field may transfer from areas outside supply or junior officers may enter supply directly. Junior officers entering the Air Force who are selected for assignment to the supply area must complete prescribed courses at ATC technical schools. Officers transferring to supply from other assignments such as pilots and navigators, who are unable to continue

in their former capacities, are not required to attend the technical schools but are supposed to be given on-the-job training in supply operations. The staff requested the Air Force to furnish a description or outline of the on-the-job training program for officers. The following reply was received:

> A formalized on-the-job training program for officers is not available. However, correspondence courses are available through the extension course institute for supply officers who are interested in increasing their knowledge in the supply field. Each commander and individual officer share the responsibility for the upgrade training to meet the requirements as set forth in the Officer Classification Manual, AFM 36–1.

The standards employed in the selection of personnel for assignment to the supply functions were discussed with officials in the office of the Director of Supply and Services, Headquarters, USAF, in an effort to determine whether those who are most directly concerned considered the requirements for assignment to be sufficient to furnish them with personnel capable of fulfilling the increasing demands of the modern complex Air Force supply mission. The discussion disclosed an awareness of some of the deficiencies in the selection and training of supply personnel. The Director of Supply and Services informed the staff of a plan which was designed to make the supply service more attractive as a career and to encourage the assignment of more capable personnel to the supply area. The plan had not been implemented or adopted, however. The need for such a plan is amply demonstrated by the facts recited. In addition, there is other evidence that much of the difficulty the Air Force has experienced in the supply function at both the base and the depot level is directly attributed to the inexperienced, untrained personnel. Qualified officers have so stated on a number of occasions. During the hearings held recently regarding the supply deficiencies at the northeast bases, practically every officer who was called upon to explain the reasons for the blunders which had been made placed the blame on inexperienced, untrained personnel.

It would appear that improvement requires not only organized training but a change in the attitude that "just about anyone can be assigned to duties in the supply area." Efforts must be made to combat a degree of complacency which seems to be developing around the theme that "when the missiles come, this supply system will be obsolete." An awareness of the fact that we do not have these alleged missiles must be developed so that everyone concerned with supply will be imbued with the necessity for making certain that the current weapons are supported to the very best of our ability.

3. Cataloging

The Defense Cataloging and Standardization Act (secs. 2451–2456, title 10, U. S. Code) requires that the DOD develop, establish, and maintain a single catalog system and provides for conversion to and utilization of this system throughout the Department. The staff found that Air Force work on the cataloging project has experienced delays to the extent that many of the planned benefits are not yet being realized, and additional expenses are currently being incurred

because of the necessity for maintenance of elaborate cross-reference catalog libraries at all levels.

At Air Force installations, the staff observed that many employees were engaged in catalog research and in posting hundreds of catalog supplements issued to correct or to add to the initial issue. Many of the employees involved were reassigned from normal duties to avoid complete chaos in the records maintenance function. Some of this difficulty has been brought about by the fact that technical orders describing all repair parts are frequently published prior to assignment of Federal stock numbers which often results in extensive searches through as many as three maintenance and supply echelons before identification of a needed part and assignment of a temporary number is accomplished. All this must be done before the part can be identified, located, and issued.

In a number of instances, it was pointed out to the staff that reference must be made to as many as 150 catalog supplement sheets to determine if a Federal stock number has been assigned to the item. The staff could find no valid reason why cumulative supplements consolidating numbers previously assigned are not prepared periodically. This procedure would save countless man-hours and expedite the supply action.

The extreme rapidity of changes in aircraft and aircraft parts and equipment, many of which are peculiar to one type of weapon, appears to create the most serious problems for the Air Force in the Federal cataloging program. Prompt identification of the part and the speedy acquisition by the user should be the prime consideration and should not be subservient to any other facets of the cataloging program.

The Air Force should review the present procedures followed in assigning Federal catalog numbers to parts that are peculiar to particular aircraft. It may be possible to eliminate or minimize the delay now involved and save many man-hours now spent in research to identify the parts number. Even more important, the delay in obtaining essential parts can be greatly reduced or entirely eliminated.

4. Effectiveness of Supply Support

The supply organization at air bases having combat-type aircraft assigned has the primary responsibility of immediately furnishing all items required to maintain the aircraft in a combat-ready condition. The effectiveness of the supply support furnished can be determined by a comparison of the number of demands made with the number of times the demands can be satisfied. (The percentage result of this comparison represents the "immediate fill rate" accomplished by the supply operation.)

The records of base supply operations reviewed by the staff on a worldwide basis disclosed unsatisfactory conditions in the supply support of first-line combat aircraft. The following tabulation of average immediate fill rates for the 6-month period ended August 31, 1957, at representative airbases, illustrates the inadequate support furnished:

Percent of requests to base immediately filled at base

Base:		Base—Continued	
A	56.6	E	30.3
B	45.4	F	52.0
C	43.0	G	47.4
D	46.1	H	63.1

Low immediate fill-rates directly affect the combat readiness of aircraft. These deficiencies are reported periodically to command levels as aircraft out of commission for lack of parts (AOCP) or not fully equipped (ANFE). Unfortunately, however, the official AOCP and ANFE reports do not always disclose the actual conditions existing at the airbases. The staff observed that cannibalization is a common practice at airbases as a means of compensating for deficiencies in established supply support. The gross waste of manpower and equipment resulting from ineffective supply support and resultant cannibalization is illustrated by excerpts from official supply deficiency reports (1957):

> * * * the reason we have been able to exist and barely meet our mission requirements has been through mass cannibalization.
>
> From May 24 through July 28 (1957) 118 items were cannibalized resulting in a loss of 964 man-hours. Many of the items were time consuming in elapsed house and expended man-hours. All of these cannibalized items appear on the critical list * * *. Our overtime figures are quite high, and it can be seen that hours expended in cannibalization alone have accounted for approximately 600 man-hours per month. As I have previously stated, the only way I have been able to meet my mission requirements is through cannibalization and an earnest effort of my personnel to make our mission complete in spite of supply deficiencies which have existed for the past 6 months.

The Air Force depot system is designed to provide the stock required by the airbase supply operations to support the aircraft assigned. Failure of the depots to adequately support the bases has a corresponding effect upon the capability of the base supply operation to fulfill its mission. The staff reviewed official Air Force reports maintained at base level concerning depot fill-rates in support of representative airbases worldwide and prepared the following tabulation of immediate fill-rates for the 6-month period ended August 31, 1957:

Percent of requests to base immediately filled at base

Base:		Base—Continued	
A	44.0	E	37.6
B	53.6	F	59.1
C	60.1	G	43.0
D	57.6	H	66.7

Airbase and headquarters commanders have been required to resort to many unauthorized and uneconomical practices in their efforts to overcome the lack of support from the depots. One Air Force Headquarters overseas reported to the staff that depot support to the bases deteriorated to such a low level that the commander found it necessary to detail a group of six men to perform supply liaison at the depot. The sole mission of the group was to expedite supply action on requisitions submitted from bases in their command. Actions of this nature

interfere with the orderly operation of the depot, are not conducive to efficient supply support, and tend to disrupt the processes of the supply organization. Conditions requiring such procedures should not be tolerated by the Air Force.

Inquiry by the staff at one of the important overseas bases, which had 126 aircraft to meet its assigned missions, disclosed that during the period January 1957 to July 1957 an average of 37.6 of these aircraft were out of commission (almost 29 percent of the entire complement). The greatest single factor in the failure of these aircraft to be combat-ready was attributed to very poor supply support received from the depot.

In a letter dated December 14, 1956, from the base commander to the Director of Supply, AMC, it was stated:

> I am greatly concerned over our current inability to provide adequate support to KB–50 aircraft. The limited or nonavailability of specialized ground-support equipment and aircraft-installed equipment spares for these aircraft have been seriously limiting their effective utilization in this area.

The monthly analysis of supply operations prepared by the supporting overseas depot shows that Zone of Interior (United States) support by line items and units for these airplanes for the period January 1957 through June 1957 was as follows:

	Line items	Units		Line items	Units
	Percent	*Percent*		*Percent*	*Percent*
January	56.5	65.0	April	27.0	53.7
February	92.7	45.3	May	30.9	20.9
March	49.8	64.6	June	25.7	32.8

The percentages of supply-support effectiveness shows a marked deterioration even though command assistance was requested in December of 1956.

At another oversea base, the staff found over one-fourth of the aircraft out of commission because of the lack of parts and equipment. The AOCP rate had increased from 14.4 percent in January 1957 to 25.5 percent in July 1957. This failure to provide supply support was traced to the prime depot in the United States, as indicated by the following table:

Supply-support effectiveness

[Percent line items supplied to those required]

	Overseas depot to base	Prime depot (United States) to overseas depot		Overseas depot to base	Prime depot (United States) to overseas depot
March 1957	53.3	56.6	June 1957	42.2	55.8
April 1957	78.5	65.0	July 1957	41.4	52.3
May 1957	68.0	71.2	August 1957	65.6	38.5

The following quotation from a memorandum dated August 2, 1957, from the commander of the overseas depot to the commander of the

prime depot in the United States further illustrates the seriousness of this problem:

Subject: Urgent requirements for support of the * * * aircraft * * * The entire * * * matter is of major concern to this headquarters. It is imperative that the most expeditious action be afforded if we are to improve upon the current AOCP status.

At this same base, it was learned by the staff that an operational readiness inspection team had made a recent inspection of the base. It was evident that base personnel knew the team was coming before it arrived because 3 aircraft that were inoperative for major repairs were cannibalized of 51 parts which were used to make 28 aircraft operational ready. The result was a favorable operational readiness report which effectively concealed the poor supply support situation. The staff questions the validity of data obtained under these circumstances.

5. Bits and Pieces

From observations made by the staff at base maintenance level, more work stoppages can be attributed to the lack of small parts and components, generally known as bits and pieces, than to major high-value items. The importance of this category of supplies cannot be overemphasized. A simple fuse, switch, gasket, resistor, etc., costing only a few cents can disable a weapons system costing many millions of dollars. A great deal of attention has been devoted to the high-value program, which is all important from a fiscal standpoint; however, the low-value items must also be managed with great care to insure that lack of these items will not adversely affect the combat readiness of prime mission aircraft. The lack of these items reduces the ability of repair shops at base level to successfully complete their assignment and forces them to send their work to the depot level. When this is done, workload problems are generated at both places.

A few of the typical items involved are sheet metal rivets and fasteners, various types and sizes of ring gaskets, high temperature nuts and bolts, and hydraulic hose and fittings. Many complaints were heard by the staff to the effect that the bits and pieces problem has been neglected.

It must be admitted that no particular program for better management of these items has been suggested. The complaints heard from base supply officers were so numerous, however, as to justify immediate full-scale inquiry into the matter by the Air Force so that corrective measures can be taken.

6. Maintenance Specialist Tool Kits

Staff inquiry at the base level disclosed that insufficient attention has been given to the very important matter of tool kits. Maintenance specialists in the Far East and in Europe advised the staff that lack of the necessary tools and portable test equipment constitutes the greatest single deficiency in the maintenance of aircraft. Some background may be necessary in order to fully understand the seriousness of this matter. The tools which are to comprise the maintenance specialists' kits are planned by the engine and aircraft manufacturers and Air Force personnel. Special tools are designed so as to con-

serve mechanics' time, and contents are kept at a minimum commensurate with the job to be done. Any tool missing from the kit means inability to accomplish some particular task in the most efficient manner.

Review of base maintenance records disclosed that a great amount of costly overtime was being performed in order to complete assignments. Workmen complained that much of this overtime resulted from the lack of proper tools.

In order to determine the extent of this problem, the staff made a random inspection of specialist tool kits at the base maintenance level. None of them were found to be more than 70 percent complete. One mechanic working on jet engines was found to be struggling along with a tool kit 34 percent complete. This particular kit was supposed to consist of 114 authorized items. Staff inquiry disclosed that 21 of the items had never been issued to the mechanic, 6 items were missing from the kit, and 5 items in the kit were unserviceable. At other bases the following kit deficiencies were noted:

Base:	*Percentage complete*	Base:	*Percentage complete*
2	50	5	40
3	60	6	50
4	65	7	70

In addition to the deficiencies mentioned, the unsatisfactory situation existing in the small tools area has been caused to some extent by the indiscriminate coding of mechanics tools as local purchase items. Professional grade items in this category are not available to bases situated in isolated areas throughout the world. As has been mentioned in part I, which is the procurement section of this report, the lack of good specifications and the failure to enforce specifications have resulted in inferior items being procured at base level. Many of the local purchase tools in the kits inspected were of a very inferior grade comparing with the type sold at 5- and 10-cent stores.

The staff cannot appraise the extent to which this problem has been aggravated by indifference or lack of coordination but, at one base visited where hand-tool kits were found to be 60 percent complete, high quality hand tools valued at $15,387 were found to be in process of being disposed of in the salvage depot. The Air Force officer accompanying the staff representative when the tools were found was unable to advise how it was possible for this situation to exist.

Immediate improvement in the hand-tool matter is entirely feasible. It requires only a realization of the seriousness of the problem and a desire to take action.

7. Effect of Having Multiple Types of Aircraft Assigned to Bases

The staff was informed by base supply officers that the stocking of spare parts, ground support equipment, and specialized tools required to support several different types of aircraft, obsolete and current, at a single base generates supply problems definitely detrimental to the support of the current types of combat aircraft.

Inquiry by the staff to determine why some bases have 10 or more types of aircraft assigned disclosed that many of the older types are maintained for the sole purpose of providing combat-readiness training for administrative personnel. This combat-readiness training

for administrative personnel is in many instances a figure of speech, since the aircraft maintained and provided for such training include C–47's, L–19's, B–29's, and other types of similar vintage now obsolete or never designed for combat purposes. It is obvious that the training of the administrative personnel consists of their flying sufficient hours to qualify for flying pay. It is equally apparent that the majority of these people are qualified to operate only the noncurrent types of aircraft, which are maintained for their benefit. There appears to be little justification for the Air Force's position that pilot proficiency training is required at this time in these out-of-date aircraft.

This is not a new problem. It has been brought to the attention of the Air Force and of Congress on many occasions, but corrective action has not been initiated. The supply-support problems which are generated at base level by the retention of obsolete aircraft for training purposes are of sufficient magnitude to justify a current review of this costly practice.

B. NAVY

Staff inquiry into the effectiveness of the Navy supply system placed major emphasis on a review of the aviation supply operations. Previous examinations of the Navy supply system have reflected the beneficial effect of the Navy's emphasis on military business management and have, with some exceptions, found the operations to be satisfactory.

1. Inventory Management of Spare Parts

Despite the general endorsement of the Navy supply system, there are a number of matters which require attention. The Bureau of Supply and Accounts, the Bureau of Aeronautics, and the Aviation Supply Office (ASO) have previously been criticized for the lack of aggressive management of the aeronautical material in the Navy supply system. The staff has found that most of the conditions criticized still exist. One weakness emphasized has been the failure of the Navy to make a clear assignment of the inventory management responsibility for spare parts to ASO, Philadelphia, Pa. In spite of numerous recommendations to correct this weakness, no adequate action has been taken and the condition still exists. Insufficient attention has been given to screening stocks to eliminate items no longer needed. Intrasystem transfers of property are still excessive, generated in part by the fact that major stocks of parts required for aircraft overhaul and repair are frequently stored at points remote from the place where these functions are conducted. Inventories have been too high, too long. Reparables, many of questionable value, continue to constitute too great a proportion of the total inventory.

Many of the aviation supply problems are caused by the dual control of the ASO that is exercised by its two parent bureaus: Aeronautics and Supplies and Accounts. Specific instances were noted in which the control exercised by the Bureau of Supplies and Accounts was inoperable because of certain supply and financial management functions that are retained by the Bureau of Aeronautics. Among these was the practice in the Bureau of Aeronautics of making initial aircraft contracts containing provision for a specified dollar value of spare parts and, at the same time, retaining the purchasing responsibility for many other spare items identified with the same aircraft.

Under this procedure, it was clear that the Bureau of Aeronautics was in a position to make procurements of items on which ASO theoretically was responsible for requirements and inventory levels. The staff was informed that numerous internal recommendations to eliminate this overlap are still under consideration, but no final action has been taken.

2. Cataloging

The Navy has experienced difficulties in conversion to and utilization of the Federal catalog similar to those detailed under the Air Force section of this report.

The staff was advised by officials at Navy installations that arbitrary deadlines established for conversion to the new catalog system had adversely affected current supply efficiency because of the drain on manpower at the station. In a few instances, physical inventories have been repeatedly postponed, adversely affecting the reliability of stock records. In the Navy aircraft overhaul and repair operations, numerous complaints were received with respect to the cross-referencing problems. It was pointed out that millions of microfilm prints and blueprints still in constant use at the maintenance and overhaul centers carry old numbers and that thousands of hours are being devoted by technically trained personnel to catalog research before needed parts can be obtained from the warehouse.

The Navy should review the present procedures followed in assigning Federal catalog numbers to parts that are peculiar to particular aircraft. It may be possible to eliminate or minimize the delay now involved and save many man-hours now spent in research to identify the parts number. Even more important, the delay in obtaining essential parts can be greatly reduced or entirely eliminated.

3. Inventory of Class A Naval Air Stations

The total inventory of all classes of current supplies in class A naval air stations amounted to $2.1 billion as of June 30, 1957. Of this total asset value, $588 million is in need of inspection or repair before issue can be made.

Aircraft engines are carried in the Navy inventory at a value of $1 each, and therefore the relationship between reparables and the total on hand is not apparent from the percentage calculation previously set forth. The fact is, however, that as of June 30, 1957, there were 8,992 aircraft engines in the inventory and 5,067, or 56 percent, were reparables not in a ready-for-issue condition.

This situation, coupled with the buildup in the proportion of reparable stocks to total inventory, is indicative of too liberal buying habits and of need for more effective inventory control of reparable items. Although the Navy has established three field districts to coordinate schedules of repair activities, these offices possess no authority with respect to screening the accumulations of equipment in need of inspection and overhaul. They operate only as staff representatives to coordinate schedules of work in the overhaul and repair shops without full voice in evaluating inventories and determining the items which should be scheduled for repair.

4. Coordination of Spare Parts and Repair Facilities

There is evidence that the Navy has not been as alert in all instances as it should have been in its efforts to achieve an economical as well as an effective supply distribution system. The staff noted for instance that the R6D-type aircraft are being overhauled and repaired at Corpus Christi, Tex., whereas the closest depot carrying the major stocks of repair parts is in Alameda, Calif., a distance of over 1,350 miles. Another example of the same situation exists for the PBM aircraft. The designated overhaul point is Pensacola, Fla., but the closest principal stock of repair parts used in that operation is stored 750 miles away in Norfolk, Va. A complete detailed inquiry covering all types of aircraft was not made, but the staff noted at least six aircraft for which the principal depots for repair parts are remote from the prime overhaul and repair facilities.

This situation requires an intrasystem transfer of property which impairs the efficiency of operations and creates an unnecessary expense.

It is believed that the Navy should review this entire situation with a view to achieving the economy and increased efficiency which will result from bringing these two operations together.

5. Examples of Supply Deficiencies Causing AOCP and Work Stoppages

The combat effectiveness of the naval air arm is diluted in every instance of supply failure resulting in (1) grounding of aircraft for lack of parts (AOCP); (2) aircraft incapable of performing assigned missions for lack of operable equipment (ANFE); or (3) delays in meeting overhaul and repair schedules (AWS). Inquiry by the staff into these aspects of aviation supply management resulted in the compilation of a listing of 40 parts items causing the most AOCP's and AWS's during fiscal year 1957. While a few of the cases examined in detail were unavoidable, a number of the delays were clearly attributable to loose control of procurement and to inadequate funding practices, and there was no indication that reporting procedures have been established to prevent similar situations from recurring in the future.

In the following examples, it was not possible from the record to find evidence of any great concern on the part of responsible officials, despite the fact that the consequences of delay were seriously affecting shop and operational effectiveness.

SHOP GRINDER, R3415-508-2697-5131

Overhaul work on the J-65 jet engine program was held up from October 17, 1956, to April 1957 because of delays in contracting for this item. Although necessary parts purchases were authorized on August 31, 1956, and despite the fact that this same item had been purchased previously, the contract was not executed until January 7, 1957, after a lapse of more than 4 months.

SCALE, BALANCE, R6670–574–5337–SPWA

The J–57 jet engine overhaul program encountered a work stoppage of approximately 16 months' duration because of delays in procuring test equipment authorized on June 26, 1956. Nearly 4 months was consumed in the Technical Engineering and Cataloging Sections, even though this item of test equipment was a proprietary item procurable only from Pratt & Whitney and designed for use on engines manufactured only by that producer. The contracting operation then consumed nearly 4 months, and delivery lead-time involved 8 months. Expedited action in this case would probably have cut the work-stoppage time in half.

CABLE, R1630–370–5019–XBPD

AOCP reports on grounding of first-line fighter aircraft (F9F) persisted from August 1956 through June 1957 as a result of failure to furnish this item. The purchase action was initiated on May 8, 1956, and the contract providing for initial delivery in 130 days and complete delivery in 340 days was not executed until September 4, 1956. It was stated that this was a proprietary item procurable from only one source, and no explanation was offered as to the delay.

TRANSMITTER, R6610–663–4049–VTHR

A number of FJ3 fighter planes were reported as AOCP beginning in January 1957 for lack of this item. This condition was corrected when deliveries began under a contract already in existence and a new purchase was directed to supply the increased demand on May 11, 1956. A contract for this replenishment purchase was not executed until October 11, 1956, after a lapse of 5 months.

PANEL ASSEMBLY, R1560–561–7036–AMDA

Lack of this item prevented use of some carriage-type aircraft (F2H) for over 6 months and tied up shop overhaul operations between February and August 1957. This condition arose from the fact that the award of the contract followed the purchase request by almost exactly 1 year (December 1955 to December 1956).

INDICATOR, R6605–188–9021–VIGJ/K

This item is reported to be a chronic cause of grounding aircraft because of delays in paperwork directing adoption and use of a new or modified part at the maintenance level. The older, less efficient part was still being modified, repaired, and used even though it was evident that AOCP rates were the result. Since no decision had been made at the time of the staff inquiry to procure increased supplies of the new model, it appears very likely that the expected directive for exclusive use of the new item will again produce a supply shortage.

In at least two instances where a serious lack of supply support existed, it was reported to the staff that lack of available funds prevented the timely placing of equipment overhaul contracts, and the shortage of usable replacement units increased the number of aircraft currently grounded for lack of parts:

Equipment: Gyro horizon indicator.
Commercial overhaul authorized: May 17, 1956.
Contract executed: December 7, 1957.

The continuing AOCP status is unquestionably due to the delay in processing the initial procurement request.

Equipment: Transducer.
Commercial overhaul authorized: May 13, 1956.
Contract executed: Not yet executed.

The Bureau of Aeronautics determined to overhaul these items of equipment commercially in fiscal year 1958. Because of alleged unavailability of funds, no contract had been let as of November 18, 1957.

The commander of one of our largest aircraft carriers advised that service on aviation spare parts was far from satisfactory. At the time of the staff inquiry, 13 of the shipboard aircraft were out of commission (AOCP) because of lack of spare parts. The commander said this seriously reduced the effectiveness of his operation and his state of readiness. The supply officer did not maintain data on the number of aircraft not fully equipped (ANFE) but said that the number was substantial at all times. He furnished several examples of long delays in deliveries of parts, some of which were delinquent for many months. This lack of equipment does not in all instances result in AOCP's or ANFE's, but it does reduce the combat capability of the carrier. It is clear that procurement and delivery to the fleet of nonstock or special requirements have not received the management emphasis necessary for maximum effectiveness.

VI. Army Supply in European Theater

A. SUPPLY CONTROL AGENCIES

The Army has established at United States Army, Europe (USAREUR), Communications Zone (COMZ) Headquarters, Maison Forte, France, supply control agencies for each of the technical services in the European theater. Basic organization and responsibility of the supply control agencies are similar and are designed to effect centralized control of the supply mission in the theater. The assigned responsibilities include development of requirements, procurement of materials, preparation of excess property lists, review of stock position, centralized accountability for all modern Army supply system (MASS) and theater reserve items, and maintaining of records of all theater stock by location. At the time of the staff's survey, personnel (military and civilian) assigned to the supply control agencies varied from 199 at Quartermaster to 617 at Ordnance Supply Control Agency.

The supply control agencies at Maison Forte, France, with the exception of the Quartermaster, have not accomplished the purposes for which they were established. It was intended that under this concept of operations it would be unnecessary for each depot to keep stock control records and that personnel engaged in this operation at the depot level would be reduced substantially. It was also believed that it would be possible for using activities to query the supply control agency at Maison Forte to determine whether or not required item or part was located at any of the depots in the system.

These requisitioning objectives have not been met. Staff inquiries at the ordnance depots, for instance, disclosed that a full complement of stock control personnel is being retained to maintain stock control and accountable records at the depots. Responsible Army officials at Ordnance and at Signal Corps depots informed the staff that the supply control agencies have not maintained accurate records, that the agencies have found it constantly necessary to compare their stock records with those maintained by the depots, and that the depot records were considered controlling. Army officials who were questioned about the situation offered the dubious explanation that maintaining the duplicate records could be considered a military expedient. The facts which follow illustrate the ineffectiveness of the Ordnance Supply Control Agency and disclose the conditions observed by the staff at one of the major ordnance activities.

As has been stated, it is the responsibility of the supply control agency to fill the supply requirements of the various ordnance activities in its area of operations. At the time of the staff inquiry, one such activity, an ordnance maintenance center in Western Germany, had in stock only 50 percent of its required spare parts. This installation is responsible for maintenance of 6,000 vehicles. It has a pool of 300 vehicles to replace those sent in for repair and overhaul. At the time of the staff visit, 241 of the 300 were deadlined for lack of parts. A total of 532 vehicles was awaiting repair, and 342 of them had been in the shop more than 15 days. The officer in command of this operation said the supply support furnished by the supply control agency was entirely inadequate. He illustrated its deficiency by advising that he had so many vehicles deadlined for parts that he sent an officer to Maison Forte with a list of 31 items most urgently needed. The records of the agency failed to disclose that any of the needed items were availabel in the supply system. Inquiry was made, however, at one of the depots under control of the agency and 22 of the 31 items were found to be in the depot stocks.

An Army officer accompanying the staff was alarmed by the conditions found at this maintenance center, and visits were made to other ordnance maintenance shops in the vicinity. The spare parts stocks were found to be in comparable condition, and he contacted COMZ Headquarters in an effort to initiate corrective measures. The staff, at a latter date, reviewed the stock record cards at the Ordnance Supply Control Agency. It was found that approximately 50 percent of the cards showed a zero balance which meant that the item was not available in any of the depot stocks. A using activity requesting any of the items for which the stock record cards show a zero balance would be advised that the item was out of stock when in all probability the requested item actually was in depot stock.

It is apparent from the staff review that, unless the operation of the stock control agencies can be improved sufficiently to provide reasonably efficient service to their customers, their activities should be discontinued or curtailed to an overall theater stock adjusting or balancing function based on periodic stock status reports from the depots. Continuation of their present ineffective and uneconomical functioning will further impair the vehicle overhaul and repair capabilities of the theater until such time as the MASS program can be made fully effective.

B. STORAGE CONDITIONS AT COMZ DEPOTS

There was an apparent lack of proper supervision and inspection by COMZ Headquarters of the installations under their jurisdiction. The condition was noticed especially in the storage methods and practices at certain COMZ supply depots in Western Germany.

At one engineer supply depot the staff observed cards on bins and pallet racks that not only showed the item number and nomenclature but also showed quantities of stock in the bin. This required storekeepers to spend much of their time at this clerical function as the card had to be changed every time items were received or issued from the location. This practice is in violation of storage procedures prescribed in the Department of the Army Technical Manual, TM 743–200, which prohibits warehouse personnel's performing accounting data functions.

At a Signal Corps depot visited by the staff, the commanding officer complained about the shortage of warehouse space. The staff noticed that the aisles were 11 feet wide and was told that the use of 4,000-pound capacity fork-lift trucks required this width aisle. The material in storage could have been adequately handled by 2,000-pound capacity trucks permitting the use of narrower aisles which would reclaim much needed storage space and provide a more economical operation. The only reason given for the use of 4,000-pound trucks was that this was all that they could obtain 4 or 5 years ago. No effort had been made to replace them with the proper equipment which has long since been obtainable.

At an ordnance depot, observation was made of tires being moved from covered warehouses to canvas-covered shelters on hard-surfaced depot roads. The number of tires was not obtained, but the staff observed a row of four pallets of tires about one-half mile long. Seven warehouses full of tires were to be handled in this manner. The staff inquired why this was being done and was told that supply bulletin 9–43 permitted storing tires outdoors in this manner. Paragraph 10 of supply bulletin 9–43 states that tires can only be stored in this manner where closed warehouses are not available or in cases of extreme emergency. To the staff's knowledge, neither of these conditions existed.

VII. Excess Stocks in Supply System Inventories

A. GENERAL

The excess inventory of personal property now being carried in the supply systems of the three services is probably the major deterrent to the attainment of the ultimate goal of all military logistic organizations—"to at all times provide support for the combat forces with the speed and responsiveness required to permit prompt and complete discharge of their assigned missions."

A perhaps somewhat oversimplified definition of excess inventory may be given as "property on hand for which there is no present or foreseeable requirement." As used in this section of this report, the term "excess" refers not only to that property which has been identified in the financial reports of the services as excess but includes, in a

limited number of instances, supplies and equipment ascertained during the staff's inquiry to be above and beyond known requirements. It does not refer to the billions of dollars' worth of surplus on hand but in the process of being disposed of.

The magnitude of the excess property problem is apparent from the tabulation below, which shows the total inventory and the extent of identified excess as recorded in financial reports of each of the three services as of June 30, 1957.

Service	Total inventory (billions)	Identified excess (billions)	Percent
Army	$20.196	$3.730	18.4
Navy	14.406	1.846	12.8
Air Force	11.599	(1)	1.4

[1] $168,000,000.

The Air Force inventory accounting reports do not reflect the full facts regarding excess property. Staff members found large quantities of excess inventory at all bases and depots visited. Informed Air Force officials advised that the Air Force computed that excess inventory in depot stocks alone exceeds $2 billion as contrasted with the reported $168 million noted above. There is no reasonably accurate method of arriving at the excess stocks included in the inventories of the more than 500 Air Force bases throughout the world, nor is there any reliable estimate of the hundreds of millions of dollars' worth of excess property existing in the unrecorded stocks carried at Air Force bases in Newfoundland, Korea, and Japan.

Excess stocks being carried in inventories are increasing. Available reports disclose that in August 1954 the Army's excess inventory was valued "in excess of $1 billion." Stocks identified as excess to Army requirements as of June 30, 1957, amounted to $3,730 billion, an increase of almost 400 percent in 3 years. Increases in Navy excess stocks have been less, but are significant. Unfortunately, no data regarding the substantial increase in Air Force excess stocks are available.

Personnel at practically every depot visited both in the United States and overseas advised that the problems associated with the retention of obsolete and excess materials were bogging down their supply operations. Supply people at the Ordnance Supply Control Agency, Maison Forte, France, were particularly anxious that some positive, aggressive action be taken to eliminate excess materials from their inventory. This agency controls the Army Ordnance supply function in the European theater and responsible personnel are in a position to know and to be able to evaluate the aggregate effects of carrying the huge excess stocks which exist in this theater of operations.

The costs of maintaining a supply system which includes large amounts of excess are substantially greater than they should be. Unnecessary expenses are incurred for inspection, maintenance, and preservation. Costs incident to deterioration and obsolescence are greater. Manpower is wasted in inventorying and accounting for excess property. Another cost factor frequently overlooked, but equally

important, has been mentioned in an Army publication devoted to supply management as quoted below:

> Unnecessary interest charges represent one cost factor associated with an inventory which is larger than necessary. All the stock owned by the Army is owned on borrowed funds on which interest charges averaging perhaps 3 percent must be paid. One billion dollars of excess inventory involves needless annual interest charges of $30 million.

Application of the same principles to the approximately $7.5 billion worth of excess property presently being carried by the 3 services indicates that needless annual interest charges of $225 million are being incurred.

One principal factor which creates excess inventory is the ever-changing status of requirements. This subject is discussed in another section of this report. Other matters relating to excess property are discussed in part III of this report and will not be repeated here. It is desired, however, to call attention to some situations which are important in any consideration of this subject.

B. ARMY

Staff inquiry disclosed that the existence of the military assistance program (MAP) has contributed to the excess inventories' being carried by the three services, particularly by the Army. Materials and equipment procured exclusively for MAP and under MAP ownership present a relatively minor problem. The fact is, however, that the MAP has provided a convenient "crutch" for justifying the retention in the supply system of obsolete and excess material initially procured to meet the requirements of the services. Discussions with responsible Army supply personnel disclosed, and staff inquiry has verified, that proper screening and disposal of excess material has been deliberately sidetracked in favor of the more expeditious and less difficult procedure of marking the item "hold for MAP." In a number of cases it was reported to staff representatives that excess lists prepared at depots have been returned from supply control points marked "hold for MAP" so promptly as to preclude the possibility that they had been properly screened. The staff was informed that this procedure has built up a very large stock of excess material in the Army supply system, most of which will eventually have to be disposed of as surplus, and that it has materially reduced the zeal of supply officers in reporting items determined to be excess.

The staff found innumerable instances of items being held in the Army supply system allegedly to meet MAP requirements.

The Mannheim Ordnance Depot, Germany, was holding for MAP some 116,000 tons of miscellaneous repair parts for vehicles. There was no known MAP requirement for these parts although vehicles supplied to meet MAP requirements have been World War II type. In the absence of established requirements, it seems a fair conclusion that most of the 116,000 tons will eventually be disposed of as surplus through regular DOD channels. The consensus of the military personnel was that 80 percent of these parts were already of the surplus category.

Approximately 60 percent of a repair-parts inventory valued at $260 million located at the Anniston (Ala.) Ordnance Depot consists

of parts for World War II type equipment no longer in use by the United States Army. Six large warehouses are devoted exclusively to the storage of such parts to meet possible MAP requirements. The stocks have been inactive for several years and represent an idle investment of $156 million. In the absence of any known requirements, it appears that these parts are surplus which should have been disposed of many years ago.

It has been stated that materials and equipment originally procured for MAP member countries and being held in Army warehouses represented a relatively minor problem to the Army supply system. Nevertheless, this activity contributes to the volume of stocks in Army depots. Some of these items have been in storage for several years. The maintenance of such stocks over unnecessarily long periods of time results in a needless expenditure of funds.

Conditions observed by the staff at some depots indicate the need for more vigorous action in connection with the movement of these stocks. For example, the staff found 157 Piper Cub aircraft in storage at the New Cumberland General Depot. Some of them were in containers indicating they had been packed for overseas shipment as early as 1952. Approximately 60 of them had been in storage at the Marietta, Ohio, depot and had been shipped to New Cumberland in January 1956. It appears that a number of these aircraft were initially destined for Germany and Italy. These plans were cancelled and it is now planned to send 71 of them to Turkey at some future date. As far as the staff could learn there are no requirements for the remaining 86 new aircraft and they may eventually be disposed of as surplus.

Mention has been made of the costs associated with carrying such stocks over long periods of time. In that connection it may be noted that, at the time of the staff visit to the New Cumberland Depot, an Air Force maintenance team composed of technicians was in the warehouse checking these aircraft. Such an inspection requires removing the aircraft from the shipping container so that all mechanical and electrical parts and equipment can be inspected and tested to the extent required to determine whether the aircraft is fully operable.

Another example of MAP parts and equipment being needlessly held in the Army supply system was found at the Pirmasens (Germany) Signal Depot. Radio and radar equipment and spare parts valued at $2,159,000 being held for MAP were observed. This equipment had been sent to Pirmasens by air shipment early in 1956, some items under priority I, the highest air priority. It was still in storage when staff representatives visited Pirmasens in August 1957.

The operation of the Modern Army Supply System (MASS) has already been described in this report. The implementation of MASS contributed to the buildup of excess inventories in the Army European supply system known as COMZ.

The Seventh Army, which depended on COMZ for supply support, was selected for the initial test of MASS. In order to effectively evaluate the operation, it was necessary that all support required by the Seventh Army be supplied through MASS from depots located in the United States. No further support (emergencies excepted) from the COMZ system was permitted. Simultaneously with the initiation of MASS, the pipelines to COMZ depots were of course full of

supplies previously ordered in the regular replenishment cycle. With the Seventh Army no longer a customer, the COMZ depot stocks now greatly exceed normal requirements. This situation applies to practically every item carried in the COMZ complex. Numerous examples were noted, but it would serve no purpose to emphasize 1 or 5 particular items. The situation can be illustrated by pointing out that, of a total inventory of $313,250,000 for class II and IV secondary items, the excess stocks amounted to $200,443,000, or 64 percent of the total inventory. The conclusion should not be drawn that MASS alone was responsible for this huge excess. It did, however, contribute to its buildup.

Excess material in the COMZ system does not complete the story on excess resulting from the implementation of the MASS program. It will be recalled that one of the elements of the MASS concept of operations provides for supply units which move with and supply the materiel requirements of the combat groups, the object being to increase the mobility of the fighting forces. Meeting this responsibility requires that stocks be held to a low level and that they be maintained in mobile vans ready to move at all times.

As part of the initial test of MASS, the 19th Ordnance Battalion was designated as a mobile supply unit for the Seventh Army. Staff inquiry disclosed that it is functioning in a manner directly opposite to the planned operation. Instead of being a mobile unit, it is immobile. Instead of being a minimum holding depot with stocks at a low level, it is literally swamped with excess inventory. All stocks have been removed from the trailer trucks and are stored in regular warehouses. Its mobility is no greater than that of the average warehouse. In fact, the 19th Ordnance Battalion duplicates in practically every respect the supply function of the Mannheim Army Ordnance Depot, which is located within the same fenced area. The operation was not planned in this manner, but excess stocks built up in the 19th Ordnance Battalion so rapidly that it became necessary for it to utilize permanent warehouse facilities with storage space greatly increased over that available in the mobile vans.

The situation first described has resulted from the fact that the 19th Ordnance Battalion was designated to receive all excess and surplus property turned in by other organizational units of the Seventh Army upon the initiation of the MASS test. As a result, it has huge stocks of excess supplies most of which have not been recorded as received, nor have they been returned to the COMZ depot system. The staff was informed that the Seventh Army has declined to return these overstocks to the depot supply system as excess to its needs because under existing fiscal arrangements little or no stock fund credit would be allowed for the return. Under these conditions, the Seventh Army has elected to incur the costs incident to retaining these excess supplies.

This hoarding of excess supplies within the Seventh Army is entirely unjustified. It has bogged down its own supply system and restricted its mobility to the point where it would be impossible for it to function in accordance with the MASS concept of operations.

The $20 billion inventory shown for the Army includes $3.7 billion of "identified" excess stock. In addition, the inventory includes some $3 billion of unserviceable stocks held for "possible" rebuild. Predi-

cated on the rate that requirements are being generated for such rebuild and considering the funds likely to be available, Army authorities have advised that there appears to be little likelihood that any substantial portion will actually be rebuilt. Exact data are not available but qualified Army personnel have estimated that at least $1 billion of the $3 billion is actually excess which should be disposed of.

Furthermore, the $20 billion inventory is composed in part of stock classified as "Economic and contingency retention stocks" valued at $3.5 billion. In the absence of reliable data, qualified Department of the Army personnel have advised that at least $1.5 billion of the $3.5 billion consists of items being held for "possible" MAP use (no known requirement) and unserviceable items which should not be retained.

Summarizing the above, it appears that the Department of the Army as of June 30, 1957, was carrying at least $6.2 billion worth of excess personal property in its inventory. This total is composed of:

	Billion
Excess identified	$3.7
Unserviceable stocks, excess to requirements	1.0
Excess economic and contingency retention stocks	1.5
Total	6.2

The staff does not desire to minimize the problems involved in eliminating this excess from the inventory, but the costs incident to carrying such huge excesses warrant drastic action. There must be a realistic "facing-up-to-the-problem" by personnel at all echelons. Throughout the inquiry comments were heard such as "of course we have excess stocks but who is going to take responsibility for disposing of them and be faced with vehement attacks from the Congress and the press for allowing them to develop?" It was pointed out to the staff time after time that the criticism resulting from any concerted campaign to focus attention on these huge excesses might well end the career of the military personnel involved.

Despite the position taken by a number of people that it was dangerous to attempt to expose the excess situation, it was found that a plan to identify and take action regarding excesses has been under consideration by the Army. It does not appear to be particularly important that a shortage of funds practically forced the development of some such procedure. The plan is known as "Elimex" and it is designed "to bring about a reduction or elimination of unserviceable and excess material." Elimex, in the view of the staff, provides the initial steps and a framework within which to operate. If it is completely implemented, with full support of all branches of the Army and is not hamstrung by budgetary or manpower limitations or strangled by regulations and restrictions, it will materially assist in purging the Army inventory of parasitic stocks.

No plans similar to Elimex calling for concerted action to identify and eliminate excess stocks have been undertaken by the Air Force and the Navy as far as information brought to the attention of the staff is concerned. It was ascertained, however, that the Director

of Materiel of the Fifth Air Force, Japan, has in progress a plan known as Operation Waistline. This plan has the announced purpose of identifying and eliminating excess stocks from the inventories of the bases under the command of the Fifth Air Force. This operation has not been particularly successful to date. It has been singularly unsuccessful at the Osan Base, Korea, and three of the bases checked in Japan were carrying inventories which appeared to be considerably above requirement levels. The staff is aware that mechanization of the accounting system has interfered with the progress of Operation Waistline. The effort has not, however, had the priority it deserves.

The staff also found that the Strategic Air Command (SAC) has done an excellent job at the SAC bases visited in purging the base inventory of excess and obsolete supplies. The inventories at the bases visited were believed to be at an almost irreducible minimum.

C. NAVY

It will have been observed that the facts regarding excess inventory are largely confined to excesses existing in the Army. Information has been received that the excess situation existing in the Navy is similar to that in the Army, but the staff has not developed details regarding this excess to the same extent as has been done in the Army. As has already been pointed out, the staff inquiry into the Navy supply system has been principally concerned with the aviation supply area and there it was found that the Navy is carrying excessive stocks in reparables as well as in active ready-for-issue stock inventories relating to aircraft.

The staff was informed by responsible officials at numerous Navy installations in the continental United States and overseas that sizable accumulations of supplies have not been physically inventoried for as long as 2½ years which is contrary to announced DOD policy guidance. It was stated that much of the available manpower had been applied to Federal catalog conversion and shuffling of stocks to conform to the new identification numbering series and that normal stock-level reviews and screening processes had been deemphasized during that period.

At one installation visited, the attention of the staff was directed to a number of items of idle stock on which the historical issue rate was so low as to make the stock level appear extremely high. It was stated that the stock levels of these items had been reported to the ASO on a number of quarterly stock status reports but that no direction as to disposition had been forthcoming.

A written inquiry was directed to the Navy concerning 15 aircraft parts selected from the group of items apparently in oversupply. The items selected ranged in value from a low of $0.78 each to a high of $8,200 each. The official response to this inquiry confirmed the facts disclosed by the staff examination, as shown in the following table:

Item	Navywide usage record		Stock at station inspected	Stock in Navy system	Unit value
	1956	1957			
1	268	228	3,946	[1]	$20.00
2	276	0	44	[1]	363.00
3	0	0	35	[1]	930.00
4	0	0	89	[1]	3,380.00
5	0	0	68	104	1,290.00
6	0	0	7	19	2,140.00
7	0	1	86	145	450.00
8	0	0	18	[1]	2,500.00
9	1	2	490	813	3,500.00
10	792	593	2,274	7,463	800.00
11	2	8	[2] 220	[2] 172	375.00
12	0	0	32	32	8,220.00
13	604	587	9,287	17,790	.78
14	531	12	19,560	28,305	10.00
15	1,860	2,000	17,162	70,569	8.10

[1] Information not available.
[2] Obviously incorrect, but in accordance with Navy records.

Detailed consideration of a few of the above-listed items emphasizes the present condition of the inventory.

Item 9 is a radio receiver-transmitter for use on an obsolete aircraft. The Navy-wide inventory is valued at $2,845,500 and, based on the 1957 usage record, represents a 400-year supply.

Item 10 is a transponder which is being replaced with other equipment. It is evident that requirements for this item will decrease, but, based upon the usage record, there is a 20-year supply in the system.

Item 14 is a hook assembly. The Navy has estimated yearly requirements at 500 even though the records indicate only 12 were used in 1957. Assuming the Navy estimate is correct, there is a 56-year supply in the system.

While the dynamic nature of the aviation program may be offered as an excuse for the excess buildup, there appears to be no justification for the failure to take action to purge the warehouses of these excesses. As far as could be learned, however, no such action was taken until after the staff inquired into the matter.

At another major installation, it was observed that the stock of reparable (RB/RE) equipment and parts, valued at more than $43 million, was warehoused at a location about 12 miles distant from the center of supply and overhaul activities, necessitating constant travel by personnel in both directions. The staff observed that the condition of these parts was being allowed to deteriorate through exposure, rough handling, and inadequate warehousing facilities. According to personnel at the subsidiary location, many of the instruments and other parts had not been examined for several years, and it was their estimate that at least one-third, or $14 million worth, was excess to currently scheduled requirements.

D. AIR FORCE

It has been stated already that Air Force accounting reports do not reflect the full facts regarding excess inventory and, therefore, data as to such stocks must be limited largely to information developed by the staff. Based upon staff observations at a number of

bases and depots visited, the percentage of excess stocks included in the Air Force inventory exceeds the 18.4 percent which has been identified as excess by the Army.

At one Air Force base visited, having supplies on hand valued at $29 million, the staff had supply personnel run a complete check of the inventory. This disclosed that 28 percent of all line items were excess. The dollar value of the excess items was $7.5 million.

At another base visited, 20 percent of the line items in stock showed no activity for a year and 10 percent showed no activity for the past 2 years. At a depot in Japan, it was found that inventory exceeds authorized retention levels by $37,100,000. A similar situation exists in the United States. At one depot it was found that stocks of items on hand showing no activity for 24 months or longer were valued at $25 million, and those that showed no activity for 12 months or longer amounted to $40 million.

It is apparent that at the Osan Air Force Base, Korea, a situation similar to that found in the Northeast Air Force bases exists. It will be recalled that the Air Force has publicly admitted that millions of dollars worth of supplies and equipment had been mishandled at those bases. It was further admitted that this situation resulted from the buildup of supplies far above normal supply levels. Press releases indicated that some $20 million worth of excess spare parts were recovered at these bases.

Osan Air Force Base has not had an inventory since the Korean conflict. The staff was advised that it is impossible to provide accurate information on the monetary value of supplies at this base or at other Air Force supply points in Korea. The following paragraph is quoted from a report furnished to the staff by the Air Force:

> **The best available estimate based on personal observations of qualified, experienced personnel, considering approximately 40,000 stock record cards, is $30 million in supply inventory, including vehicles and equipment not on unit allowance lists. This is for Osan alone. For other Air Force activities in Korea, it is estimated the supply inventory would approximate $10 million.**

This would indicate a value of $40 million for assets in Korea. Authorized retention levels and equipment allowances amount to $24,100,000 or an indicated excess of $15,900,000. This excess covers only line items for which there are stock record cards. The Osan base supply officer advised that based upon test-checks, which he made, he calculated that there are approximately 12,000 items in the warehouses for which there are no records of any kind. No estimate of the value of these items could be made. The staff noted at this base a vast amount of supplies and equipment in an outside storage area approximately 600 x 200 feet. Inquiry developed the fact that there were no stock cards covering the items stored in this area and the base supply officer had no idea as to the identity or value of these supplies. Examination was made of the visible items (that is, items not in boxes or sealed packages); and it was noted that there were a number of rolls of lead-covered cable, heavy generators, and other high-value items of supplies and equipment. It was not possible to arrive at any reasonable estimate of the value of these items. It is apparent, however, that the supplies, including those in the warehouses and those in outside storage for which there are no records, cost many millions of dollars. This is, of course, in addition to the $15,900,000 excess previously mentioned.

The staff observed another outside storage area approximately 300 x 75 feet devoted to the storage of reparables. Inspection disclosed that the items consisted of radar sets, automotive equipment, motor generator sets, aircraft engines, and similar items. The base supply officer could not furnish information as to the description, quantity, or value of items stored in this area. These assets represent items which should have been placed in proper channels for repair or disposal as they were generated. The fact they were allowed to accumulate has resulted in assets of high value becoming unavailable, and may well have resulted in further procurement of these items, thereby creating excesses in the supply system. This observation is particularly true of the motor generator sets observed. There is an acute shortage of this equipment which is used in connection with the early warning system in the Far East.

VIII. Requirements

A. General

The computation of requirements for materiel necessary to meet current and future supply and demand is an important and complex function within the military services. Plans, programs, and guidance are under continuous review and updating, based on constantly changing international and domestic situations. In addition, because of technological advances, a large percentage of equipment is constantly being outmoded while new equipment is phased into the system. The Army, for example, is currently in the process of a major reorganization of its infantry, airborne, and armored divisions to permit operations under conditions of atomic warfare. Consequently a great deal of effort is being directed toward developing revised tables of organization and equipment to determine initial gross allowances and requirements.

Planning and programing for military requirements stem from recommendations of the National Security Council to the President. These are delegated to the Secretary of Defense who directs and coordinates the military services in their efforts to accomplish assigned responsibilities. The Joint Chiefs of Staff advise the Secretary and prepare joint strategic and logistic plans which are further implemented by the services into individual plans and programs.

The committee directive asked that a study be made of the methods (and the effectiveness thereof) used in determining unit costs and quantitative requirements for end items and for spare parts. The staff's review was concerned primarily with quantitative requirement computations. Generally, unit costs entered on requirement forms are obtained from procurement data and represent the latest contract prices, adjusted where considered appropriate for price changes thought likely to occur during the requirement period. In order to make the report more easily understood, a brief description of background data is presented, followed by comments concerning visits made to military installations.

B. DEPARTMENT OF THE ARMY

Within the Army, the Chief of Staff has responsibility for plans, programs, and budgets which are executed by Deputy Chiefs of Staff. The Deputy Chief of Staff for Logistics (DCSLOG) translates plans from higher authorities into supporting programs and is responsible for the supply operation. The Technical Services compute materiel requirements based on the materiel program and interim guidance.

The Army has a supply control system which provides for the determination of requirements, a procurement, stock management, and reporting. The principal objective is to obtain a balance between supply and demand.

Items in the Army are divided into principal, major secondary, minor secondary, and repair parts. Principal items (about 600) and major secondary items (about 2,000) constitute about 75 percent of the dollar value of procurement. Principal items are those of major importance which require detailed analysis and examination by the DCSLOG staff. Principal and major secondary items are procured through the procurement and production Army (P&PA) appropriation, and minor secondary items and repair parts are procured primarily through stock funds or maintenance and operations (M&O) appropriations. There are two basic documents or supply control forms for computing item requirements, (1) Form 487 for principal items, and (2) Form 1794 for secondary items and repair parts.

1. Principal Items

In the past the technical services computed quarterly the requirements for principal and major secondary items on supply control studies—DA Form 487—which contained data regarding current and projected requirements during peacetime and for an assumed mobilization period. This one form, showing supply and demand estimates by quarters, half years, and full years over a 4-year period, was the basis for initial budget estimates, procurements programs, repair schedules, industrial mobilization planning, and other decisions on supply control. (The Form 487 has been recently replaced by a material control study containing comparable information in greater detail to be submitted semiannually. These were not published at the time of this review.)

The elements comprising the total gross requirement are as follows:

(*a*) Initial issue—for every Army unit there is a prescribed table of authorized equipment.

(*b*) Replacement and consumption—represents the anticipated wearout, consumption, or combat loss. Replacement is usually computed by applying a replacement factor to items in uses, multiplied by months. Such factors are based on historical records, engineering estimates, or current experience. Replacement factors apply generally to principal equipment items whereas consumption rates apply to expendable items such as secondary items and repair parts.

(*c*) Levels and in transit—will vary with supply conditions and shipping time to different areas. The required quantities are computed by multiplying the initial allowance by the replacement factor times the number of months in the pipeline.

(*d*) Class IV projects—concerns items for special projects.

After computing the gross requirement, the Army applies current and future assets to arrive at a net requirement. Current assets are determined from stock reports submitted by stock control points, continental armies, and overseas commands. Future assets consist of (1) items scheduled for receipt from procurement or production, and (2) items scheduled for receipt from rebuild.

ORDNANCE CORPS

The requirements computation for all principal and major secondary items is accomplished in Letterkenny, Pa., at the Major Item Supply Management Agency (MISMA). Requirement computations for all secondary items and repair parts are accomplished at designated commands. All commands have responsibility for supply and stock control of particular types of assigned items. The staff visited MISMA, the Ordnance Tank and Automotive Command (OTAC), and the Ordnance Weapons Command to determine the methods and effectiveness of the requirements computation.

MISMA (1) determines requirements for principal ordnance items and selected ammunition items, (2) recommends necessary procurements, and (3) provides stock management in its various phases. Personnel strength at July 1, 1957, was approximately 350. There are 1,828 general supply items and about 700 ammunition items reported for computation purposes which were valued at approximately $13 billion as of December 31, 1956. The number of supply control studies prepared quarterly (now semiannually) varies slightly, but 627 were prepared as of April 1, 1957.

At the time of the staff's visit to MISMA, a reorganization was in process to accomplish an integration of functions (requirements determination, inventory distribution, and procurement direction) on a commodity-type organization. This action was taken pursuant to DCSLOG Directive No. 111–780 dated June 13, 1956, and should result in a more efficient management operation.

The overall guidelines for computing requirements from the planning through the programing stages appear adequate. DCSLOG has taken action recently to provide direct guidance on the preparation of the supply control form by meeting with representatives of the Technical Services. This is an effective method of accomplishing valid and uniform interpretations of Army programs. However, there is considerable delay in publishing supply control studies. The latest ones available were dated July 18, 1957, and contained information as of January 1, 1957.

In the past, many groups have criticized the excessive detail presented in the supply control form. This situation still exists and in fact has become worse, in that the new material control study (which supersedes the supply control Form No. 487) is now a 2-page form requiring additional data. A need for simplification exists in view of the fact that war plans and equipment requirements due to tech-

nological advances are constantly changing. A great deal of time and effort is expended to give this form an appearance of exactness which it does not possess considering the 4-year projections, estimated replacement rates, and application of asset data which frequently is untimely and unreliable.

Application of asset data is based on a worldwide equipment status reporting of 1,878 items which are reported by approximately 7,000 Army units. These reports are consolidated into 19 summaries at major commands and forwarded to MISMA. The continental United States depot reports are consolidated with the major command summaries to produce the ORDFX–20 report. Command headquarters also report material in hands of troops directly to MISMA.

One indication of the unreliability of these asset reports appears on line 33 of the supply control study entitled "Adjustment." These adjustments are made to reconcile opening and closing inventory balances, after considering receipts, allocations, and known losses. For 10 different trucks and automobiles, unexplained inventory adjustments range from several hundred to 5,800 units. Substantial adjustments are shown also for various units of artillery, small arms, and combat vehicles. It is estimated that these entries amounted to over $75 million.

It is suggested that consideration be given as follows:

(*a*) Asset reports be submitted semiannually rather than quarterly to coincide with the preparation of the new material control study which will be prepared on a semiannual basis.

(*b*) Material in transit within the various echelons of command be accounted for in order to minimize the number of arbitrary inventory adjustments made.

(*c*) Recognition be given to inventory losses.

(*d*) Responsibility for a combined accurate asset report be established at command headquarters.

The various weaknesses in the reporting structure cause unrealistic projections of replacement factors used in computing gross requirements. In many studies reviewed, the replacement factor appeared unrealistic and greatly overstated in relation to reported experience data. As previously indicated, experience data for many items are not reported. It appears that more timely revisions and considerations should be given to such rates by responsible analysts and personnel at technical service headquarters.

Another area requiring more timely consideration concerns those principal items which are in long supply for which current procurement is in process. One of the prime causes of this situation is the many changes in gross requirements. With the revised organization at MISMA providing responsibility for supply and stock control in one individual for designated items, a more meaningful review should be performed. Emphasis should be placed on the necessity for timely terminations or cutback of these high-cost procurements when a change in the requirement status occurs. For example, on the April 1957 study (status as of January 1, 1957) for the Howitzer 155 millimeter costing $37,657 each, with concurrent spares, it is indicated that the quantity on hand exceeds the peacetime and mobilization requirement. It also indicates 251 units scheduled for receipt from funded procurement. The same situation exists in the study for the M65

telescope costing $1,487 with concurrent spares. This study shows sufficient assets on hand for peacetime and mobilization requirements and also includes scheduled receipts from funded procurement of 500 units.

In neither of the above instances, however, was action taken at the time of the staff review to effect either a timely cutback or termination of the quantities on order in excess of the revised requirements. The failure to take timely termination action has already resulted in an unnecessary expenditure of public funds in excess of $10 million. In addition, the Army supply system will be overburdened with material excess to needs and added expense to maintain and dispose of it will be incurred.

TRANSPORTATION CORPS

The Transportation Corps prepares supply control studies for about 130 principal and major secondary items. The discussion of the Supply Control Form 487 as used by the Ordnance Corps applies also to the Transportation Corps. However, the staff was informed that periodic asset reports from overseas commands are not received at the Transportation Supply Command in St. Louis, Mo., where requirements for principal items are computed. Although perpetual inventory records are maintained on cards, such records alone cannot be considered an adequate substitute for asset reports based on a physical inventory.

A review of projected replacement quantities for Army aircraft included in the requirements computations as shown on the April 1957 supply studies indicates that excessive rates were applied in the light of past experience and estimated future allowances. Such action obviously results in an overstatement of the net requirement. These comments pertain to 6 of the 9 studies prepared for Army aircraft varying in unit cost from $15,000 to $250,000 per unit.

Replacement quantities for rail and marine equipments are computed on an actuarial method which is based on a curve indicating the number of retirements based on asset life. Although this staff does not question the soundness of the method, criticism is directed at the Transportation Corps' application of it. The computations for various items are performed in a Demand Analysis Division under the Directorate of Storage and Distribution. After the computed annual requirements for a particular item are determined, the total is translated into a monthly factor which is used by the requirements people in preparing the supply control study. This staff noted that (1) the asset data used for the factor computation were 9 months older than that used on the supply control study, and (2) although the factor was based on all assets with the active Army and Reserves, it was applied on the supply control study only to assets with the active Army. Effort should be made to eliminate the inconsistencies in the computation to arrive at a more valid estimated replacement quantity.

2. SECONDARY ITEMS AND REPAIR PARTS

Secondary items and repair parts are generally of low-dollar value and easy to produce. Procedures for supply control are contained in Army Regulation No. 710–45 dated July 23, 1956. These provide for the use of a supply control study Form No. 1794. The main objective

of the study is to evaluate the stock position of an item based on current and prospective issues and demands plus application of a future density factor to determine whether procurement, disposal, or allocation action is necessary. The Army separates these items into three broad divisions based on dollar value of annual issues from United States depots:

1. High-dollar value—issues exceed $10,000.
2. Medium-dollar value—issues between $1,000 and $10,000.
3. Low-dollar value—issues less than $1,000.

There are over 700,000 such items in the Army system which probably account for approximately 90 percent of the workload and costs of the distribution system. Generally within the Army, about 88 percent of the items are within the low dollar category representing about 3 percent of the total annual dollar issue. About 3 percent of the items are in the high dollar value category, representing about 90 percent of the total dollar annual issues. High dollar value items are computed or reviewed quarterly. Medium dollar value items are reviewed semiannually and low dollar value items are reviewed at irregular and less frequent intervals.

This staff visited the Ordnance Weapons Command, Ordnance Tank and Automotive Center, Transportation Supply and Maintenance Command, Signal Supply Agency, and the Clothing and Textile Supply Agency. With the exception of the Transportation Command, these installations have integrated the stock and supply control functions as prescribed by DCSLOG Directive 111–780, June 13, 1956. This reorganization should provide for a more effective operation. These stock and supply control points designate and control type of items, inventory levels, and redistribution. They also afford guidance to the depots.

Although the basic method of computing requirements was similar at these installations, the application of related data varied at the different locations. This variance applies principally to the application of recurring and nonrecurring demands and issues, pipelines, and asset data to determine a net requirement. As with principal items, the primary weakness in this supply operation concerns the reliability of the reporting system, particularly in regard to demand and asset data. Another area requiring Army study and action concerns the possible return from overseas commands of excess materiel which is required in the United States.

ORDNANCE WEAPONS COMMAND

This installation is responsible for the control of approximately 30,000 items, mostly repair parts for small arms, field and antiaircraft artillery, vehicular armaments, and special tools, valued at approximately $800 million. There was evidence of good management in reorganizing the operation and reassigning and controlling responsibilities.

The determination of realistic future requirements depends upon accurate reporting of current demands made on a depot by an item user. Various supply data are received from United States depots (CONUS) and armies in Europe (USAREUR) and the Far East (AFFE). CONUS reports show recurring and nonrecurring issues

and demands. One year's experience is divided by four to obtain an average quarterly demand (AQD). The AQD is adjusted by a percentage based on future densities of end items to determine estimated future requirements. The staff examination of selected items indicated that in almost all cases reported issues exceeded demands which indicates unreliable reporting. To compensate for the apparent inaccurate reporting in determining an AQD, requirement analysts considered all recurring demands plus 70 percent of the difference between such demands and recurring issues. For USAREUR, the AQD is based on issues from CONUS depots to USAREUR depots which in effect is a reporting of issues from one depot to another. The AQD of AFFE is based on issues made to users from AFFE depots. It is evident from the above that the gross requirement for high dollar value items is computed on three different bases with a minimum application of true demand data.

Instructions provide for establishing a depot safety level of materiel in AFFE at combat rates. When forecasted demands show a decrease, the safety level is reduced. It was noted that such reductions were made at lower peacetime rates rather than at the combat rates initially used. This resulted in an insufficient reduction of the requirement.

Over a year ago the Army initiated project MASS (Modern Army Supply System) to provide a more expeditious supply operation between the United States and European depots. It is suggested that the quantities provided on the supply control studies for "en route to depot pipeline changes" be revised to consider the savings in transportation time.

ORDNANCE TANK AND AUTOMOTIVE COMMAND (OTAC)

This installation is responsible for the control of approximately 100,000 tank and automotive repair parts valued at approximately $1.5 billion. The organizational structure and prescribed functions are comparable to those of the Ordnance Weapons Command; and, generally, the same type of inventory, demand, and issue data are reported to OTAC.

A review of recent statistics indicated that about one-third of the items in the system had not been issued in the past 12 months. These items plus the low dollar value issues represent about 87 percent of the total items and about 3 percent of the dollar value. High dollar value issues represent 3 percent of the number of items and about 87 percent of the dollars. To accomplish a more effective supply management, low-value items with no recent issue experience should be eliminated from the review system so that greater effort can be devoted to managing active items and disposing of excess items.

One major difference between OTAC and the Weapons Command in accomplishing supply management is the use by OTAC of the Bizmac electronic data processing system. This system provides supply managers with (1) availability lists for items reviewed which show by depot the stock on hand, due in, due out, levels, and quantity in long or short supply and (2) consolidated demand summaries which show past years' issues and demands by quarters. Details of such transactions are received daily and consolidated quarterly. Staff review of requirement computations for selected items indicated that

current data regarding available assets and demands are not always available. In several instances, it was noted that depots were directly contacted to determine inventory status prior to recommending procurement. It would appear that effective utilization of Bizmac has not progressed as anticipated. The wisdom of purchasing and maintaining such a system is questionable when it is evident that the Signal Corps and several Navy installations use an electronic data processing system at a lower cost to accomplish similar tasks.

TRANSPORTATION CORPS (TC)

In order to provide an improved organization for supply management activities at supply and stock control points, DCSLOG, in June 1956, directed that such installations integrate the requirements determination and supply management functions on a commodity basis. This action was to be initiated no later than August 1, 1956, and to be completed no later than July 1957. At the time of the staff visit (during August 1957) such action was neither completed nor contemplated. Visits to other installations where reorganizations were made indicated a more effective and efficient operation.

The need for timely and accurate demand and asset data, and their application in the requirement computation process, has been discussed in the Ordnance section of this report. Of all installations visited, TC appeared to have the least effective operation. TC has worldwide responsibility for supply control assets. However, issue and demand data and inventory status reports are not received from overseas areas. The requirements analyst receives no demand data in CONUS. He bases his computation on issues from CONUS depots to CONUS users and to overseas depots. Assets on hand in CONUS depots are applied against the gross requirement for all areas. In CONUS, Army aircraft spares held in Air Force depots are, to a great extent, not accounted for. The sum of these statements indicates an unrealistic requirement computation and ineffective supply management operation.

SIGNAL CORPS

This installation is responsible for the control of about 174,000 items valued at approximately $700 million. As in other technical services, about 2 percent of the items are in the high dollar value category, representing about 85 percent of the total dollar value. For supply management and requirement computation purposes, Signal Corps uses a 705 IBM electronic data processing system. It appears to this staff that considerable progress has been made with this system in the first year of operation.

At the time of this review only demand and issue data from CONUS depots were used in computing requirements. It is suggested that comparable available data from AFFE and USAREUR be included in the requirement computation to obtain a more accurate forecast of future requirements.

QUARTERMASTER CORPS

The staff reviewed the computation of requirements as performed by the single manager for clothing and textiles. The single-manager

function has been in effect less than 1 year and is in the process of organization.

Gross material requirements for six subsequent quarters are received from all services quarterly. Demand and issue data are not received from overseas commands; although quarterly CONUS demand data are available, they are not used in connection with item reviews. The single manager applies his assets (in the wholesale system) to the gross requirements to arrive at a net material requirement. Asset reports from other services showing stock on hand at the retail level are not received by the single manager. It is apparent that the single manager has no knowledge of true demands or the validity of the requirement.

Several requirement computations were examined by the staff. One study dated January 1957 indicated that a procurement directive for blankets had been issued during October 1956. Because funds were unavailable, no procurement action was taken. The stock status report and supply study of July 1957 showed a one-third reduction in the requirement. However, eight contracts were awarded from July 8 through September 16, 1957, without regard to the change in requirements. This resulted in a long supply of blankets to the extent of several hundred thousand dollars. Action should be taken to review long-outstanding purchase directives to determine whether the requirement still exists.

C. DEPARTMENT OF THE AIR FORCE

Within the Air Force the Air Staff has the responsibility for the formulation, review, and revision of the plans and programs which are the basic guides for determining requirements to meet wartime capabilities and current peacetime operations. The various documents setting forth these plans and programs, issued by the Air Staff, are used by the various supporting elements of the Air Force as a guide for the acquisition of materiel and personnel required. The principal Air Force programing documents portray forces and equipping (PG), aircraft and missile inventory (PX), flying hours (PF), base utilization (PD), communications and electronics (PC), and manpower (PM). In addition, a USAF materiel guidance document, which prescribes the materiel policies, instructions, and guidelines for the use of all Air Force activities, is developed to insure appropriate computation for budget and buying purposes. These programs and implementing guidance are then transmitted to the Air Materiel Command (AMC) where they are further refined into very specific terms for use in determining requirements, procurement, overhaul, and disposal of all classes and subclasses of materiel.

The Air Materiel Command has responsibility for worldwide logistic support of the Air Force. The main operating functions of AMC have been decentralized to 15 Air Materiel areas and depots, all located in the ZI which provide logistic support for assigned commodities or weapons systems. Air Force materiel requirements, excluding complete aircraft, missiles, and flight training equipments, are computed within the AMC complex.

Air Force materiel, except complete aircraft and engines, is divided into two major classifications—consumption-type and replacement-

type items. Consumption-type items are those which are consumed or lose their identity when put to use. They are expendable items for which accountability terminates at issue. They are the larger of the two groupings and consist primarily of components, spare parts, and assemblies applicable to aircraft and other major end items. Replacement-type items are those which maintain their identity while in use. They are nonexpendable items for which accountability is retained after issue. They are generally end items, such as automotive equipment, desks, and typewriters.

The basic method of computing requirements depends upon whether an item is consumption-type or replacement-type materiel. Consumption-type item requirements are based on the principle of projecting past consumption experience into future periods. Replacement-type item requirements are based on the projected number of personnel or units authorized to possess them and the numbers in which such possession is authorized. Under both methods the computation consists of determining the worldwide gross requirement for a future period and applying against it assets which are on hand (both at depots and bases) or on order (current procurement) to obtain a net requirement.

The Air Force divides its materiel into three major categories by value in order to relate supply controls to the relative investments in these assets.

Category I (high-value)—Items which are procured in sufficient dollar volume to warrant special attention. It encompasses 3 percent of the materiel and 45 percent of the dollars.

Category II—Items with a unit price of $10 or more not selected for high-value control. It encompasses 22 percent of the materiel and 39 percent of the dollars.

Category III—Items with a unit price of less than $10. It encompasses 75 percent of the materiel and 16 percent of the dollars.

The frequency of computations depends on the value of the particular item. High-cost items (high value) comprising cost category I are computed and reviewed quarterly while medium and low-cost items in cost categories II and III are computed annually. Because of the proportionately larger amount of dollars involved, special attention is given to high value items. This includes a more refined requirements computation, frequent inventories, shorter pipelines, and other measures to reduce requirements.

1. Flying-hour Program—Projected Versus Actual

The flying-hour program states the number of flying hours per organizational unit by type, model, and series of aircraft planned for a given period. This period is generally a 3- to 3½-year projection broken into quarterly segments. It is published annually with interim revisions issued as required.

The flying-hour program is the element most commonly used in the determination of aircraft spares and spare-part requirements. For items that are related to flying hours, the requirements formula consists of an application of the total projected flying hours over the buying program period multiplied by the representative factor—issue rate, wear-out rate. This period is usually of 30 to 36 months depending upon the reorder leadtime for the particular item. Where the

projected flying hours are unrealistic in relation to actual hours flown during the buying program period, the resulting requirement will be understated or overstated. The former (under) results in nonsupport of operational aircraft and the latter (over) results in accumulation of excess materiel in the supply system.

Staff review of three aircraft programs has disclosed that the flying-hour programs were consistently overstated in relation to the actual hours flown for the same period. Although experience should have dictated the issuance of progressively more realistic flying-hour programs, each succeeding program continued to be overstated in relation to actual hours being flown.

The staff analysis of the F–89 aircraft programs covered 17 different programs published between January 1951 and May 1956 and projecting flying hours of the F–89 for the 6 fiscal years 1952 to 1957, inclusive. The actual hours flown in any year never came close to the projection. Actual hours ranged from a low of 4 percent to a high of 83.1 percent of the projected hours.

Since buying is based on projected programs and need is based on actual flying, it is obvious that procurement of F–89 spares has been greater than necessary. This was verified by an analysis of the stock position of consumption-type spare parts for F–89 aircraft as of August 15, 1957. Of a total inventory of $41.9 million, approximately $21 million was in long supply. Significantly, $14.3 million was excess to the economic reserve level.

The F–101 aircraft was programed to fly during the fiscal years 1955, 1956, and 1957. It did not fly at all in fiscal year 1955. In fiscal year 1956 its actual flying hours ranged from 3.9 percent of the largest program to 50.4 percent of the smallest of 9 different projected programs. In fiscal year 1957 the actual hours ranged from 0.9 percent of the largest program to 11.4 percent of the smallest of 8 programs.

The RF–101 aircraft was included in 8 programs in fiscal year 1957. Its actual flying hours ranged from 1.4 percent to 10.7 percent of the projected programs.

Inasmuch as the total flying-hour program is applied to the buying program period, that portion of the program that is not flown causes the procurement of spare parts over and above the needs of the program for which they were purchased. The ability of future programs to absorb such spare parts procured but not utilized in current periods is dependent upon the issuance of realistic flying-hour programs for future periods. As demonstrated by the above percentages, each succeeding flying-hour program continued to be inflated in terms of hours actually flown, thereby contributing to the accumulation of spare parts which may exceed lifetime requirements.

The staff recognizes that there are many factors that may cause the accumulation of items in the long supply category, i. e., inaccurate time between overhaul factors and errors in reporting asset and consumption data. However, the staff believes that the largest single cause of the accumulation of such items is the consistent issuance of unrealistic flying-hour programs.

Headquarters, Air Materiel Command, is aware of this problem and has analyzed the flying-hour programs to determine the effect of such programs on their buying plans. The results of their study follows:

F–100 aircraft—Actual hours versus projected hours

Fiscal year	Projected	Actual	Projected over actual
1954	1,008	0	1,008
1955	28,312	4,542	23,760
1956	173,520	51,008	122,432

Translating these underflown hours for this single aircraft into dollars, the AMC study indicates that for fiscal year 1954 through fiscal year 1956 approximately $60 million of the materiel was procured over and above program needs for that period. This represents a long-supply inventory of $26,184,531 for engine spare parts, $23,188,620 for airframe spare parts, and approximately $11 million for accessories and instruments. Whether or not this long supply inventory will be ultimately required for the needs of subsequent programs cannot at this time be determined. It is evident, however, that any long-supply inventory not subsequently needed becomes excess to the Air Force requirements and represents a needless expenditure of public funds from which only a few cents on the dollar will be ultimately realized.

Analysis of other aircraft

Aircraft	Projected	Actual	Program over actual
B–52B	27,128	15,189	11,939
B/RB–66	5,973	2,550	3,423
B/RB–57A	79,157	47,674	31,483
RF–84F	6,162	4,245	1,917

These aircraft studies disclosed that actual flying hours were consistently below the projected flying hours. Consequently, it appears a valid conclusion that this same condition exists in all other combatant-type aircraft and that substantial quantities of spare parts for such aircraft will ultimately become excess to needs and will have to be disposed of at a minimum dollar return.

2. Improved Requirements Policies and Procedures

During the past year, the AMC has developed new policies and procedures for the determination of requirements for spare parts in support of aeronautical equipments.

(a) SIXTY-DAY CONCEPT

It is planned to integrate mobilization reserves materiel with currently authorized peacetime levels and provide spare stockage objectives at wartime or post-D-day activity rates for all aircraft having a wartime mission. This is to be the minimum required to satisfy peacetime needs and maintain a stock level sufficient to meet anticipated USAF war-readiness policies. This improvement is designed to increase effectiveness and reduce dollar requirements for aircraft spare parts. A comparable policy integrating war-readiness and peacetime stockage requirements for spare engines was implemented by the USAF in fiscal year 1957.

(B) SINGLE-PROGRAM APPROACH

Under the budget structure in effect prior to fiscal year 1957, initial and replenishment spare requirements were funded under two different appropriations (P–100 and P–400, respectively) and, therefore, had to be separately computed, based on program data specifically applicable to each type of requirement. The one-program concept represents a major improvement made possible when both initial and replenishment spares funds were combined into one account.

Frequently, both types of requirements had to be computed for the same type, model, and series of aircraft with initial spares support provided for the in-production aircraft and replenishment spares support provided for the in-service aircraft. Under such a procedure, assets for support of the hours to be flown by the in-production aircraft were, in effect procured and set aside for support of a program to be flown several years in the future. Under the single-program approach, which has been implemented on all new weapon systems provisioned since January 1957, initial and replenishment spares requirements have been consolidated and are computed against a single program applicable to both in-production and in-service aircraft. Prior to initiation of any new procurements, all on-hand and on-order assets are applied against total support requirements for the type, model, and series aircraft concerned.

This change should reduce the amount of materiel that becomes obsolescent because of engineering changes and defer the procurement of many spare parts until valid consumption data are available to justify needs.

The staff believes that the application of these management-improvement techniques to the determination of spare-parts requirements was an important accomplishment during the past year. However, the staff does not believe that these methods, in themselves, will overcome the deficiencies of the flying-hour program.

3. FAILURE TO APPLY IMPROVED PROCEDURES

In recent years, the AMC has developed new policies and procedures for the determination of requirements for insurance and contingency high-value spare parts. Insurance-type items are those which are not subject to periodic replacement or wear out; i. e., surfaces, doors, panels, etc. However, they are subject to infreqeunt replacement as the result of accidents or other unexpected occurrences. Contingency-type items are items for which no valid factors can be initially established, but it is anticipated that they will ultimately be subject to periodic replacement or wear out. Both the insurance and contingency-type items are handled in the same manner.

Inherent in these new policies are the deferred and/or minimum procurement concepts, both of which dictate that only token quantities of spare parts will be procured until requirements can be fully justified based on actual experience. Although this is a sound policy, it is apparent that effective implementation is lacking.

Staff review of property class O1G (F–101 aircraft) indicated that quantities being procured were apparently based on computations made while the items were classed as operating high-value items, and procurement requirements were not revised downward when the items were reclassified as contingency items. It appears to the staff that

application of the deferred or minimum procurement concept to this property class would have resulted in reducing the on-order quantities of a large number of items. Examples of items believed to warrant such application are:

(*a*) Part No. 20–41500–3, strut assembly.
Unit price: $6,000.
Requirement: 94 units.
Inventory on hand: None.
Inventory on order: 94 units.
Total procurement: $564,000.
Time between overhauls: 1,000 hours.

(*b*) Part No. 20–41500–4, strut assembly.
Unit price: $6,000.
Requirement: 94 units.
Inventory on hand: None.
Inventory on order: 94 units.
Total procurement: $564,000.
Time between overhauls: 1,000 hours.

(*c*) Part No. 20–45051–9, landing-gear nose.
Unit price: $5,000.
Requirement: 135 units.
Inventory on hand: None.
Inventory on order: 135 units.
Total procurement: $675,000.
Time between overhauls: 750 hours.

(*d*) Part No. 20–23001–305, tip assembly, vertical stabilizer.
Unit price: $569.17.
Requirement: 334 units.
Inventory on hand: 20 units.
Inventory on order: 314 units.
Total procurement: $178,719.38.
Time between overhauls: 500 hours.

4. Delay in Initiating and Processing Termination Actions

A continuing review of all requirements calculations, particularly of the more costly items, is essential as a partial safeguard against overbuying and the resultant generation of excess and surplus. Staff review has disclosed that, when such restudy has revealed items excess to programed requirements, action to cancel production on contract was not being accomplished in a timely manner. This failure to act promptly results in deliveries to the Air Force of materiel that is excess to Air Force needs. In reviewing 31 items with computed excesses still remaining on order with a contract price of $2,171,725, the staff noted delays in processing time ranging from 8 to 317 days in notifying the contractor to stop production. For example:

(1) Part No. 0232–170020N2, gear.
Unit price: $498.
Number requested for termination: 42.
Date excess computed: April 26, 1957.
Date procurement notified: June 17, 1957.
Date contractor notified: July 15, 1957.
Number terminated: None. Contractor had delivered 30 units on June 17, 1957, and 12 units on June 28, 1957, all prior to date of notification to the contractor.
Total cost of excess equipment delivered: $20,916.

(2) Part No. 0232–429561, housing.
Unit price: $786.
Number requested for termination: 300.
Date excess computed: May 26, 1956.
Date procurement notified: August 30, 1956.

Date contractor notified: April 8, 1957.
Number terminated: 150. Contractor notification of 95 to 100 percent termination charges on remainder.
Total cost of excess equipment delivered: $117,900.

(3) Part No. 0232–431142N2, crankshaft.
Unit price: $2,016.
Number requested for termination: 225.
Date excess computed: June 10, 1956.
Date procurement notified: August 30, 1956.
Date contractor notified: Unknown.
Number terminated: None. Contractor advised in teletype dated September 21, 1956, of 100 percent termination charges for 186 each, and that 39 each had been delivered.
Total cost of excess equipment delivered: $453,600.

Dollar summary of items reviewed

Number of items (31)	Terminated	Not terminated
4	$87,165	
6		$746,717
6	516,701	240,098
15	(1)	
Total	603,866	986,81

[1] Status in doubt as of Sept. 17, 1957.

The staff recognizes that the termination of an item does not result in a total savings except in those instances where production has not begun or where the item can be diverted to another use. However, delay in giving prompt notification to the contractor to stop production results in additional termination charges.

At another air materiel area the staff found more instances of delays in taking termination action where such action was indicated. Apparently, as a result of questions raised by the staff during the visit, the Air Force terminated a number of procurements which resulted in savings to the Government of $105,796.94.

During the course of the staff's review, Headquarters AMC, recognizing this problem, issued a directive on September 3, 1957, to all AMA and depot commanders, stating in part:

> * * * it is recommended that the maximum processing time, from determination that cancellation is in order to advising the contractor, be established as 5 days * * *.

The staff feels that this is a step forward in correcting this situation.

In addition, the staff found that the decision as to when and how much to terminate depends to a great extent on the contractor's estimate of termination charges. In most cases these estimates are relied upon without adequate review by the Air Force. The General Accounting Office in recent studies has shown that such contractors' estimates of potential termination charges tend to be overstated. Where the contractor's estimate is sufficiently inflated, it appears that termination action would be uneconomical, thereby minimizing the extent to which the Air Force will terminate excess material on contract. Therefore, the staff believes that these estimates should be sufficiently reviewed by the Air Force to insure that the termination decision is based upon complete, accurate, and timely information.

D. DEPARTMENT OF THE NAVY

The Chief of Naval Operations and the Commandant of the Marine Corps have the responsibility for planning, forecasting, and determining the requirements for equipment, material, personnel, and supporting services of the Navy and the Marine Corps. The Chief of Naval Operations is responsible for coordinating and integrating the requirements of the operating forces of the Navy, of the Marine Corps, and of the bureaus and offices of the Navy Department into total requirements of the Department. These requirements are transmitted to the offices and bureaus of the Navy Department in broad terms as to what is needed, when it is needed, and where it is needed. The principal Navy programing documents are as follows:

(1) Annual program objectives—compiled jointly by the Chief of Naval Operations and the Commandant of the Marine Corps.

(2) Navy basic mobilization plan—issued annually by the Chief of Naval Operations.

(3) Marine Corps mobilization objectives plan—issued annually by the Commandant of the Marine Corps.

(4) Various subsidiary programs and guidance documents giving specific details of interest to the individual bureaus and offices, i. e., aircraft flying hours, sortie rates, intensity factors, ordnance usage rates, etc.

These programs and implementing guidance are transmitted to the seven technical bureaus where the approved requirements are translated into firm procurement schedules. The technical bureaus are responsible for research and development, procurement, production, and utilization and distribution of equipment, material, and facilities.

Items within the Navy are divided into major equipments and secondary or repair parts, standard items, and consumables. The control of the major equipments, totaling some 36,000 items representing $8 billion, remains vested in the technical bureaus. The control of the multitudinous repair parts and standard items, totaling approximately 1,200,000 items representing $5.6 billion, is lodged in the hands of 15 decentralized inventory managers (supply demand control points). Each supply demand control point (SDCP) is under the management control of the Bureau of Supplies and Accounts, with technical cognizance exercised by the technical bureau having prime responsibility for the material administered by that SDCP. The major functions of an SDCP are the determination of requirements, procurement, and distribution to meet worldwide Navy demand.

1. Aviation Supply Office

The Aviation Supply Office (ASO) is responsible for the management of aeronautical equipments, components, and parts in the Department of the Navy. It has under its control approximately 450,000 stock items with an inventory value in excess of $2 billion. ASO is the largest SDCP in the Navy supply system, having more than twice the number of stock items and almost double the inventory value of the next largest SDCP.

The computation of replenishment purchase and redistribution requirements is presently being accomplished under 2 separate systems. Both systems are very similar when evaluated along theoretical lines.

However, this similarity ends when one analyzes the computational mechanics under the two systems. The program usage replenishment system (PURS) is a completely mechanized system, using electronic data processing equipment, which allows a more refined treatment of inventory, program, and technical data to be ground into the requirement computations. The replenishment demand inventory system (RDIS) is a combined manual and mechanized system, using conventional electrical accounting machines, which does not allow for the many refinements under the PURS system. The current policy provides that the PURS system will gradually replace RDIS, except for general aeronautical materials.

At the present time there are 171,000 or 38 percent of ASO's 450,000 items under the PURS system. By the first quarter of fiscal year 1959, there will be 228,000 items or 51 percent under this system. The eventual expansion of the system will embrace 330,000 or 75 percent of ASO's items, representing the goal of the system.

Because of time limitation the staff could not make a detailed evaluation of the systems or the factors being used in computation of requirements. Therefore, the review was limited to a determination of the system's capability of producing a net requirement and to the isolation of basic weaknesses.

2. Program Usage Replenishment System

The basic premise of the PURS system is that aircraft spares requirements are directly related to the operations and overhauls of the aircraft. Through interpretation of flying hours and overhaul programs in terms of maintenance and overhaul cycles and by multiplying these cycles by overhaul and usage factors, a gross requirement is obtained. The deduction of assets in the supply system and/or on contract results in a net requirement for procurement.

As stated previously, the PURS system is a completely mechanized inventory control system which produces for the requirements analyst and the inventory manager the basic tools to enable them to effectively manage stock items under their control. Insofar as the PURS system did produce the necessary tools for effective inventory management and inasmuch as time limitations did not allow for an evaluation of the factors used in the requirements computation, the staff, within these limitations, was satisfied with the end product being produced under this system.

However, in reviewing the extent to which the requirements analyst used the tools made available to him by the PURS system, the staff found that the tools were not being utilized effectively. For example:

Delay in processing termination actions. One of the many products given to the requirements analyst is a tabulating card for each item excess to computed requirements with on-order quantities remaining on contract. These cards enable the requirements anlysts to take immediate action to stop production at the contractor's plant, thereby reducing termination charges and minimizing the extent of excess material being brought into the supply system. In reviewing this area, the staff found that, in many property classes, action to cut back excesses had not been taken although these cards were available for almost 3 months. In addition, it was noted that excessive delays were

experienced in delivering the cards from the EDPM tabulating room to the requirements analyst. For example:

(*a*) Property class: Curtiss-Wright engine parts.
Date excess on-order cards from tabulating room: August 30, 1957.
Date excess on-order cards delivered to the requirements analyst: September 13, 1957.
Number of items: 52.
Dollar value of excess on order: $1,125,000.
Date procurement was notified: As of November 29, 1957, no action taken to notify procurement.

(*b*) Property class: Pratt & Whitney engine parts.
Date excess on-order cards from tabulating room: August 30, 1957.
Date excess on-order cards delivered to the requirements analyst: September 6, 1957.
Number of items: 18.
Dollar value of excess on order: $1,125,000.
Date procurement was notified: November 20, 1957.
Date termination action taken by procurement: November 26, 1957.

3. Replenishment Demand Inventory System (RDIS)

RDIS is a method of relating the programs of the past 9 months to the program of a future period and multiplying demands of the past 9 months by a factor representing this program relationship for the purpose of predicting demands for a future period. While other factors are used, maintenance and overhaul program data are applied in the majority of cases. Theoretically, RDIS is very similar to PURS with a substitution of demand data for usage data.

(a) Inability to compute a gross and net requirement

At this point the similarity of the 2 systems ends, for where PURS gave the requirements analyst a gross and net requirement for procurement of stocks, the RDIS system gives the requirements analyst only the past 9 months demand data and the current asset position of the stock number. The requirements analyst must then manually compute the gross and net requirement for procurement of stocks. Inasmuch as each requirement analyst is responsible for several thousand stock numbers which he is physically incapable of computing each quarter, he reverts to a scanning method. This is simply a quick mental calculation to determine if the particular stock number is approaching a short supply status. Only if this occurs, does the requirements analyst compute the gross and net requirement for the stock number in question. To illustrate the magnitude of this deficiency, the staff questioned the requirements analysts managing the Douglas Aircraft property class and was informed that, of approximately 17,000 stock items in the class, only 2 percent, or approximately 340 items were computed. Therefore, the requirements analyst does not know the asset position of the remaining 16,660 stock numbers in relation to the gross requirement for the items in his assigned class. Obviously, where the requirements analyst does not have knowledge of

the gross requirement, he is incapable of inventory management of the stock numbers in question. Of primary importance, the RDIS system does not reveal items with excess onorder quantities, thereby prohibiting the requirements analyst from taking appropriate termination action.

(B) EQUAL REQUIREMENTS TREATMENT REGARDLESS OF UNIT PRICE

As stated previously, the inability of ASO to compute requirements for all the stock numbers under its control is due to the lack of physical and mechanical means as opposed to a deficiency in the application of the requirements formulas. Basically, this stems from the premise that all items must be given equal requirements treatment regardless of unit price. Bearing in mind that ASO controls approximately 450,000 stock numbers, this becomes a tremendous, if not impossible, task.

ASO, recognizing this deficiency in the RDIS system, instituted the PURS system in 1950. However, because of the time lag in obtaining a sufficient number of large-scale electronic data processing equipment, we find that, 7 years later, only approximately 38 percent of its items have been converted to the PURS system. The eventual expansion of the PURS system to embrace 75 percent of ASO's items is scheduled to be accomplished by fiscal year 1960, pending the acquisition of additional EDPM equipment.

Another approach being taken by ASO in this area is the implementation of a system of greater management control for those items representing high-dollar inventory investments and a lesser degree of management attention for those items representing low-dollar investments. The low-value items would be managed under wholesale methods, thereby releasing man-hours and machine time which could be utilized to effectively manage the high-value items. It is significant to note that approximately 35,000 of ASO's items represent 60 percent of the dollars. This system has been under test at ASO since approximately April 1957 and is not expected to be in effect until the first quarter of fiscal year 1959.

The staff believes that the high and low-value approach is the most favorable method for the following reasons:

(1) Increased supply effectiveness is accomplished in a minimum of time.

(2) Acquisition of EDPM equipment represents a long-range program and at best would control only approximately 75 percent of ASO's items.

(3) The requirements analysts can give more attention to a fewer number of items which represent the greatest amount of dollars.

(4) A similar system has been in effect in the Air Force since 1954 and has proven to be very satisfactory.

The staff recognizes that the implementation of this system would require higher stock levels and reorder points for low-value items as well as a premium means of transportation and a more extensive inventory reporting system for the high-value items. However, the staff believes that the savings to be gained through reduced requirements for high-value items would more than offset the initial outlay

to provide for higher stock levels for low-value items and the cost of premium transportation and inventory reporting for high-value items.

4. Unrealistic Flying-Hour Programs

A study of the effect of flying-hour programs on the buying program, similar to the one made by the staff in the Air Force, was attempted in the Navy. The staff found that program documents issued prior to July 1954 for active aircraft introduced into the system during fiscal year 1953 through fiscal year 1957 were not available. Therefore, this study could not be made. However, in discussion with Navy officials who used these programs in their daily activities, the staff was advised that programed hours for combatant-type aircraft are consistently overstated in relation to actual hours flown. Inasmuch as these programed hours are used in the computation of the buying program, the resulting requirement will be overstated. There are many factors that may cause this situation to arise, but the staff believes that the issuance of unrealistic flying-hour programs is the largest single contributor to the overprocurement of aeronautical spare parts.

5. Military Medical Supply Agency

This agency, established on June 26, 1956, is the single manager for the military services of medical supplies which consist of about 10,000 items valued at approximately $300 million.

Requirement analysts review quarterly a consolidated stock status report and supply-demand review study. This is a good working document which shows various data including prior demands, requisitioning objectives, stock on hand, expected receipts, and net required and/or excess. At the beginning of this single-manager operation, forecasts of future demands were submitted by the Army and Air Force. In the future, probably after a year's operation, the single manager will be in a better position to determine and evaluate such peacetime requirements. In addition to peacetime requirements, gross mobilization requirements are submitted to the single manager by the other services.

In the review of several items, this staff noted that additional guidance and direction should be given to analysts to emphasize the review of current procurements in relation to changing and current requirements in order to effect a possible savings through cutback or termination. For example, on 2 successive studies (April and July 1957) for 1 item, the indicated current procurement for 352 units valued at $40,000 was scheduled to be delivered October 1957 through January 1958. Including this quantity due in, the April study showed an excess of 100 units, and the July study showed an excess of 542 units. Although such an occurrence may be an isolated case in this instance, comparable situations were noted in other services.

At the present time, the single manager does not receive demand data from overseas commands. Such data would prove helpful in forecasting requirements. The current single-manager charter does not provide for worldwide responsibility for medical supply management. However, it appears to this staff that such assigned responsibility would provide a more efficient and economical operation.

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6. Ship Parts Control Center and Ordnance Supply Office

These installations use electronic data processing machines which furnish relatively current information on a consolidated stock status report. This item report has a great amount of related information including asset data, past demands· requirements, and excesses. This provides the requirement analyst with an effective tool for reviewing requirements and supply management.

The function of these supply demand control points is to support major equipments controlled by responsible bureaus. At these installations the forecast of requirements is based primarily on past replenishment demand experience. No provision is made for showing nonrecurring demands separately. It was noted that, in the computation of material requirements for these items, no consideration is given to changes in programs for major end items. Thus it is conceivable that requirements for these secondary items could be generated to support major items being phased out of the system or, conversely, requirements for these items can be understated if programs are increased.

It appeared to this satff that a timely review of inventory levels should be made at the Ordnance Supply Office. For example, the retention level computed for items examined provided for a 50-year supply of materiel. Apparently this rate was established several years ago and should be revised to a more realistic one to permit expeditious disposals where possible.

IX. Miscellaneous

During the course of the inquiry, a number of matters not particularly related to the specific subjects mentioned in the committee directive were called to the attention of the staff. Many of these involved DOD personnel policies, some of them concerned individual grievances, and other related to matters too insignificant to warrant inclusion in a report of this type.

In some instances, however, the inquiry into these matters disclosed an attitude of extrvagance on the part of highly placed officers responsible for programs involving the expenditure of millions of dollars of appropriated funds. For example, at Clark Air Force Base, Philippine Islands, it was found that shortly after the arrival of a new commander of the 13th Air Force in September 1956, elaborate programs for refurbishing, remodeling, and furnishing his quarters were drawn up. The general initially occupied building 2051. He lived there without his family from September 1956 until March 1957; and according to data obtained from the comptroller, 13th Air Force, some $7,531.10 of appropriated funds was spent for furniture for this building during the time it was occupied by the general. According to this same source, only $113.19 was spent for alterations and improvements in the building during the period of occupancy by the general. This amount of money cannot be reconciled with the statement made to staff representatives by the officer responsible for preparing these quarters for occupancy by the general. This officer stated that in preparing his program the general instructed him to visualize the finest hotel he had ever been in and to refurbish building 2051 in accordance therewith. The staff was advised that shortly after the general's arrival at the

base, he went to Manila and ordered several thousand dollars worth of hand-carved furniture for his temporary quarters, building 2051. Purchase orders were said to have been prepared covering these items but they could not be procured because of lack of funds. This furniture, which cost approximately $4,000, was then paid for from civilian housing funds (nonappropriated) on direct orders from the general. It was claimed the general had no authority to take such action.

In October 1956, work was started preparing building 2048B for occupancy by the general. Remodeling of this building cost $4,953.06. This included the installation cost of three 1-ton air-conditioning units, but did not include the cost of the air-conditioning equipment. Building 2048B was occupied by the general and his family from March 6, 1957, to July 4, 1957. In addition to the $4,953.06 mentioned above, it was reported that upon the general's orders an additional amount of $3,724 (contract AF64(709)113) was expended on this building in preparing it for a visit to Clark by a VIP (another Air Force general) who did not appear as planned.

The Clark Air Force Base quarters regularly occupied by the commanding general is identified as building 2050. It was not immediately occupied by the present (October 1957) commander because of his desire for extensive remodeling and complete refurnishing. Efforts to meet the general's requirements were being carried on while he was occupying the quarters mentioned previously. Actual reconstruction work was delayed because the base housing officer was unable to get approval of higher headquarters for a program which would meet the requirements stated by the general. Work was undertaken in April 1957, and a total of $15,489.19 was expended. This included the installation cost (but not the equipment cost) for five air-conditioning units. It is interesting to note that in attempting to justify the installation of the air-conditioning units in the general's quarters, the base vice commander in a letter dated February 21, 1957, and addressed to the wing commander responsible for doing the work, stated:

> The areas to be air-conditioned are the upstairs rooms which will be utilized, to a large extent, as conference and study rooms as no other area is available in this facility for such purposes.

This statement appears to be fiction when it is considered that 2 of the air-conditioning units were to be placed in the bedroom occupied by the general and his wife, and the other 3 units were to be placed in bedrooms occupied by the general's children. The approved program on which $15,489.19 was spent did not complete the alterations desired by the general. The wing installation engineer, acting on instructions, prepared an extensive project to be financed from fiscal year 1958 funds. This project included air-conditioning the entire home, the installation of one bidet in each of the 3 bathrooms, and other miscellaneous work, the total estimated cost being $41,000. Details of this project were submitted on more than one occasion, but it was never approved. The question as to where the disapproval action took place has not been completely resolved. The comptroller of the 13th Air Force, who is directly responsible to the general, advised that the program was disapproved by the general at the base. Other information indicates that this program was disapproved at higher headquarters. The staff was not successful in obtaining the paperwork pertaining thereto, but

certain memorandums reviewed indicate that efforts of the 13th Air Force commander to have the work performed were not abandoned until after a visit to Clark Air Force Base by personnel from higher headquarters.

The requirement for having a bidet in each of the bathrooms, installation of which would have cost $2,600, was questioned by the staff. It was explained these were desired by the general so that the bathrooms would conform with European standards.

It has been indicated that the commander required the refurnishing of building 2050. Staff inquiry disclosed that meeting the general's requirements with regard to furniture was a very difficult matter for personnel attached to Clark Air Force Base. According to data furnished by the comptroller, 13th Air Force, the new furnishings required by the general cost a total of $12,023. The comptroller advised that the furnishings were procured in a normal manner in accordance with existing regulations which authorized furniture for general officers' quarters.

The staff inquiry indicates that an Air Force major skilled in interior decorating came to Clark Air Force Base from Tokyo and assisted the general in selecting items of furniture to be manufactured and in selecting the upholstery material to be used. It was reported that the general became dissatisfied with the progress being made in the procurement of furniture for his residence and that his wife did not like the color selections which had been made by the general. A GS–12 civilian attached to Clark conferred with the general's wife, and thereafter was ordered to go to Tokyo to determine whether it would be possible to change the upholstery materials which had been selected. He was also instructed to expedite delivery of the furniture. This civilian spent 10 days in various places in Japan attempting to expedite delivery and get the upholstery materials changed. He reported that he was unable to accomplish the latter since the manufacturers of the furniture had already progressed too far to permit a change. Upon his return to Clark Air Force Base it was decided that a master sergeant assigned to Clark should go to Japan and spend full time expediting the delivery of the general's furniture. This master sergeant spent 8 weeks continuously in Japan in an effort to meet the general's requirements. The bulk of the furniture was finally delivered to Clark the latter part of June 1957.

In addition to the quarters at building 2050 on the Clark Air Force Base, the commanding general has summer quarters at John Hay Air Force Base, Baguio, Philippine Islands, located about 65 miles from Clark. Since the arrival of the present commander some $2,730.68 has been spent on repairs and alterations to these quarters and $9,800.86 has been expended for furniture. This included $445 spent for a king-size bedstead, $380 for a sectional davenport, and $220 for a curved divan.

The previously mentioned civilian employee who went to Tokyo to expedite delivery of the general's furniture advised the staff that he was instructed by the general and his wife to refurnish the Baguio quarters with hunting-lodge type rustic style furniture. The orders were received too late for him to comply since the furniture contracts had already been entered into and could not be canceled.

An official memo "For the record," reviewed by the staff, disclosed that in June 1957 the general telephonically communicated with the Director of Supply, 13th Air Force, and advised that he was taking his (the general's) wife to Singapore to purchase slipcover material for the furniture in his quarters. The general was advised that if this were done the only way reimbursement could be obtained was through the filing of a formal claim against the Government. According to the memo, the general exclaimed, "There must be another way of procuring things." Thereafter, the Director of Supply and the chief procurement officer conferred on this matter. It was concluded that a number of things were being purchased in Singapore and that a procurement officer would be sent there. Purchase requests were prepared and a procurement and contract officer was detailed on temporary duty to Singapore to purchase the slipcover material.

The general did not confine his extravagance to the expenditure of appropriated funds. His summer quarters were not sufficiently well furnished to suit his requirements. On February 19, 1957, he directed the following memorandum to a responsible subordinate:

HEADQUARTERS, 13TH AIR FORCE

UNITED STATES AIR FORCE

OFFICE OF THE COMMANDER

APO 74, San Francisco, Calif.

FEBRUARY 19.

Memorandum for Colonel———:

Below I am listing a few things for my quarters which would make living a little easier:

(*a*) Towels. All white. Generously sized bath towels; face towels somewhat smaller (but not much) than the present bath towels; linen hand towels for all bathrooms including lavatory, but of course no bath towels there.

(*b*) Bath mats. Thick, heavy, white. Enough so they can be changed daily.

(*c*) Some low simple flower dishes. Preferably plain glass, instead of the peculiar things we have now, which are mostly tall brass.

(*d*) Floorboard outlets where there are lamps, to keep us all from tripping up.

(*e*) Coffee spoons. Small ones for the small after dinner coffee, commonly called demitasse.

(*f*) Place mats so that one does not have to use linen cloths covering the table, always.

(*g*) Kitchen. It lacks some equipment, like a Waring mixer or equivalent; adequate knives for all purposes, a good set of tea things for properly serving and preparing tea; a generously proportioned cocktail shaker; an electric toaster.

(*h*) Some plain cigarette boxes, to hold three different brands, king size.

(*i*) A cigar humidor, very plain.

(*j*) Mechanical clocks in each room, with gentle alarms.

"(s) ——— ———,
Major General, USAF, Commander.

The general had previously presented this officer with a bill for electric blankets which he had purchased and at the same time requested that a silver tea service be purchased for him. These items could not be purchased with appropriated funds. They therefore had to be paid for from nonappropriated funds belonging to the officers' open mess of the 6202d Air Base Squadron. The staff has been informed that the general had no authority to spend these funds and that doing so caused considerable unfavorable comment among the officers and airmen at the base. It was pointed out that the records of the officers' mess show approval for the expenditure of these funds.

Staff attention was called to the fact that this approval was ex post facto and according to the officers interviewed no other action was possible under the circumstances.

The staff inquired concerning the legality of the general having 2 sets of quarters. Advice was received that regulations provide for only 1 set of quarters and it was explained the quarters at Baguio are not "officially" assigned to the general. It will be noted, however, that in the memorandum quoted above the general refers to "my quarters."

Considerable unfavorable comment was also heard by the staff concerning a concrete canopy which was built from the curb to the general's private entrance to his office. The comptroller of the 13th Air Force, in response to a written request, advised the staff it cost $2,136.30 to construct the canopy.

Although the staff was unable to obtain the paper work relating thereto, it was determined that a bar was built into the general's official office in building 2122. It is the contention of the officers interviewed that this installation was illegal and staff inquiry developed that it was accomplished on direct verbal instructions given to the installations officer.

The staff was further advised that a bar was built into the general's official aircraft and that both of these installations are contrary to Air Force regulations. It was claimed, but the staff did not verify, that both these bars were stocked with liquors from the Officers' Club and that the liquors were never paid for by the general.

Some idea of the capriciousness of this general can be gained from the fact that a new refrigerator having a few scratches was installed in his office. He did not like its appearance and the housing services officer was required to furnish a different one. Memoranda relating to this matter which have been reviewed by the staff indicate there were no new refrigerators in stock and in order to comply with the orders received, it was necessary for the housing services officer to remove one from the residence of the deputy wing commander.

This general's disregard for regulations and the proper use of appropriated funds is further illustrated by an incident involving funds made available to the Clark Air Force Base information services officer (ISO).

Clark Air Force Base is located in close proximity to several small Philippine communities. The staff was advised that the ISO has available a limited contingency fund which, according to the Air Force regulations, was to be used to enhance relations with these nearby communities. According to a memorandum "For the Record" dated May 18, 1957, some $700 was spent from this fund to purchase golf clubs and radios for officers of another country when they visited Clark Air Force Base. The memorandum states these were given as personal gifts from the general.

Further misuse of manpower and of military facilities is illustrated by an incident referred to at Clark Air Force Base as operation "Razorback." Staff inquiry disclosed that just before Easter 1957, this general planned to serve roast pig, "Filipino style." An appropriate pig was obtained from a Filipino farmer by the commander of John Hay Air Force Base but it required inspection by a veterinarian before it could be served to the general. The veterinarian who made

the examination, an ex-Air Force officer, advised the staff concerning the examination. He said that on a Friday morning late in April 1957 the commander at John Hay Air Force Base requested that he proceed from Clark Air Force Base to John Hay for the purpose of inspecting a pig that was to be roasted for the general. He explained to the commander that he was very busy; that he had inspections scheduled at Clark which would require the entire day and that he could not go to John Hay. The commander insisted that he go to John Hay; therefore, he agreed to discuss the matter with his commanding officer. Following the discussion, he telephoned the commander at John Hay and advised that he was unable to obtain authority to inspect the pig. Shortly thereafter the veterinarian received a telephone call from the general's office advising that an L–20 aircraft (single engine, 4 place plane) would leave the Clark flight line in 20 minutes and that he could go to Baguio and inspect the pig. He said this information was not received as a direct order but he was given to understand the trip was to be made. He was accompanied on this trip by an officer on the general's staff. He inspected the pig and returned to Clark on the following day.

It may be observed that large sums of money do not appear to have been spent in connection with the activities of this general. The matters complained of are, however, destructive to morale and create an indifferent attitude toward rules and regulations on the part of subordinate personnel. They furnish grist for the gossip mills on every military installation from San Francisco to Manila.

Upon completion of its inquiry rumors reached the staff that the Inspector General of the Air Force intended to investigate the activities of this general. Information was also received that the Office of Special Investigations of the Air Force planned an independent inquiry. The staff has not been contacted by representatives of either of these groups and has no knowledge as to action which may have been taken since the Air Force takes the position their findings are privileged and not available for review.

APPENDIX

THE SECRETARY OF DEFENSE

WASHINGTON, *June 17, 1957.*

Hon. DENNIS CHAVEZ,
Chairman, Department of Defense Subcommittee of the Committee on Appropriations, United States Senate.

DEAR MR. CHAIRMAN: It has been brought to my attention that an amendment is proposed to H. R. 7665, the Department of Defense appropriation bill for fiscal year 1958. This amendment, among other things, would require the President, within 180 days after the date of enactment of the Appropriation Act, to submit to the Congress his recommendations "for a civilian-managed agency, to be under the supervision and direction of the Secretary of Defense, which shall be responsible for the procurement, production, warehousing, distribution of supplies or equipment, standardization of inventory control, and other supply management functions for common supply items other than combat equipment, material, and directly related combat items."

The Department of Defense, as you know, has from the beginning fully supported section 638 of the Department of Defense Appropriation Act of 1953. The Department continues to support the objectives of that amendment and, moreover, is in full agreement with the stated purposes of the new amendment; namely, "achieving an efficient, economical, and practical integrated supply system designed to meet the needs of the military departments without duplica-

tion or overlapping of either operations or functions * * *." However, we do not think that the proposed amendment will achieve these purposes and objectives. In fact, I am convinced that the implementation of the proposed amendment setting up a new and separate supply agency within the Department of Defense would actually create more paperwork, less efficiency, and higher costs.

Equally important, passage of this amendment would wash out the programs in being and require the Department of Defense to start all over again without fully realizing benefits derived from the substantial progress made to date.

The idea of a separate service of supply for common-use items is not new to me. I have been familiar with the matter for years. After some 2 years of openminded review within the Department, my associates and I have come to the firm conclusion that there would be no net gain to the Government or the taxpayer in establishing a separate supply service for common-use items. To the contrary, it would require the establishment of a new supply organization paralleling the existing supply organizations, which must continue to exist under the proposal in order to carry out our field missions.

The great bulk of Defense Department inventories, in dollar value, consists of what the proposed amendment calls "combat equipment, material, and directly related combat items," all of which would be left undisturbed in the existing supply systems. Only the common supply items of a noncombat nature would be placed under the proposed civilian managed agency. Obviously, we cannot dispense with the existing supply systems which now handle both combat and noncombat items, since they will have to continue to handle the so-called combat equipment, material, and directly related combat items. In effect, therefore, the proposed amendment would simply require us to superimpose on the existing supply systems an additional supply system, thus increasing, rather than decreasing, duplication and cost.

Whenever we think about setting up a new organization to take over some of the functions of existing organizations, we must consider how much it is going to cost in people and money. The creation of an agency which the amendment proposes would certainly set up new organizations for administration, personnel management, communications, budgeting, depot management, production and mobilization planning, inventory management, accounting, purchasing, inspection, and payment of bills. In our single-manager assignment, and other steps we have taken to integrate the kinds of things that are subject to effective integration, which will be discussed later, we have very largely avoided such new organizations particularly at the headquarters level, by using existing organizations. I am convinced that the creation of this new agency would add to our net costs of operation.

The problem of centralization versus decentralization is not unique to the Defense Department. It is a common problem in private industry, especially in the larger business enterprises. It is essentially a problem of bigness—a problem which I have struggled with for more than 20 years in private business. The bigger the enterprise, the greater the need to decentralize the actual operations, retaining for top management the function of establishing and clarifying policy and following up on performance.

The Defense Establishment is far bigger than any private business. Here, the problem is one of integration versus consolidation. Our policy is to integrate and interlock operations; not to arbitrarily consolidate them. This complies completely with the purpose of section 638 of the Department of Defense Appropriation Act of 1953.

After more than 4 years in the Pentagon, I am convinced that centralization or consolidation, in itself, is not the panacea for our management problems. The real problems are the sound determination of requirements, an effective check on usage, and the flow of supplies to meet these requirements. There is a place for centralization or consolidation wherever it can produce a profit. Similarly, there is a place for decentralization wherever it is the best way of doing the job. Thus, fundamentally the problem is to get the best job done in the most efficient manner that will satisfy the requirements of both peace and war conditions.

I might mention, in passing, that decentralization has not only proved to be economical for the Department of Defense but has also been extremely advantageous to the many small-business men.

The degree to which it should be consolidation, integration, or decentralization in the supply function should be determined solely on the basis of what produces the most efficient and economical results. This, I believe, is precisely

the objective and outcome of the original amendment. It is also the basic policy of the Department of Defense.

In keeping with these policies and objectives, the Department of Defense over the past several years has developed and instituted a large number of very important improvements in its supply operations, specifically designed to enhance efficiency and economy and to eliminate unncessary duplication. For example, the extension of the stock fund principle has made available savings of over $3 billion to be utilized as directed by Congress.

The scope of these improvements goes considerably beyond the goals of the proposed amendment since it includes all common-use items (both combat and noncombat type), numbering over 3 million.

With respect to certain categories of common use type items, such as food and clothing, medical supplies, etc., we have found that a rather high degree of integration at the wholesale level is both practical and economical. For these categories of supplies, as well as for certain common services, we have developed and established what we call the single manager system.

Under the single manager plan, as applied to a commodity, the secretary of a particular military department is designated to perform all supply management functions for the supply of that commodity to all military services. The assignment embraces a complete supply cycle including standardization, cataloging, net requirements determination, procurement, inspection, inventory management, positioning, receipt, storage, issue, transportation, maintenance, and disposal. Control of that commodity is exercised through one central agency and its distribution is effected through a single distribution system employing existing facilities of the military services and serving the needs of all military customers.

In single manager assignments for common services, the designated military departmental secretary exercises a like measure of central control of such services to meet the demands of all military requirements.

At the present time the single-manager assignments have been made in the commodity areas of subsistence, textiles clothing, petroleum products, and medical materiel; and in the service areas of ocean transportation, traffic management, and airlift services. We are now actively studying the feasibility of applying the single-manager principle to the management of photographic equipment and supplies.

The single-manager program represents complete integration in the area assigned of both operations and organization; in the strictest sense of the word, and without the extra costs of another supply system. The single-manager system uses the facilities, manpower, staff organizations, etc., already available within the military departments, thus avoiding the need for more people, more facilities, overlapping of inventories and other types of duplication.

We have also recognized the need for a companion approach for the handling of those items which may not lend themselves to the single-manager concept. To meet this problem, the Department has outlined a program of interservice supply support. This program goes well beyond many of the recommendations on this subject made in various Hoover Commission reports, in that it covers all items in the Department of Defense supply system which are common to more than one service, combat or noncombat. The military services have executed an agreement which provides for an Interservice Supply Support Committee, composed of the top supply managers to implement this system. Services and supplies hitherto available only to the units of the owning department are now available to the units of all departments in the same geographical area which may have requirements for these services and supplies. It also provides for more effective utilization of available stocks since commodity coordination groups must identify items which are used by more than one military service. These commodity coordination groups must assure that the military services fully utilize each other's available stocks of interserviceable items to meet requirements. The continuing interservice comparison of assets and requirements now required of these commodity coordination groups screens procurement actions as well as disposal actions.

This interservice supply support arrangement operates worldwide and has been implemented in the overseas commands as well as here in the continental United States. Currently, there are 18 commodity coordinating groups established and another 13 are under study.

In addition we are continuing to utilize and improve the procurement assignment system. Under this program, one of the military departments, through

its normal procurement system, purchases all of a given class of technical and commercial commodities for itself and for the other services, in accordance with their respective requirements when it is deemed to be necessary. Exceptions are made for local procurement and certain equipment of special design. This program alone covers about one-half of all Department of Defense purchases of materiel and supplies.

Included in the single procurement assignment program is the plant cognizance program. Under this program each aircraft, engine, and propeller plant is placed under the cognizance of a single service. The cognizant service alone maintains a contract administration staff at the facility and processes orders to the plant for all the services. Steps are now being taken to place missile plants under the plant cognizance system. Even where plant cognizance has not been assigned to a single service, one service normally performs the inspection and local contract administration functions for all the services buying from the plant, thus minimizing duplication of effort and personnel.

A prime prerequisite of any intergrated or coordinated supply operation is a common language. Thus, the Federal catalog program is a key tool in our effort to achieve the objectives of section 638 of the Department of Defense Appropriation Act of 1953. This program is well on its way to successful completion. The identification phase of the program was completed last December, with over 3 million items identified with a single name and catalog number which will be used in the supply transactions of all military services. Conversion is the next major step and almost half of that job has been completed. Conversion is the act of putting the new item identifications into use by tagging the stock and changing stock arrangements to conform to the Federal numbers. Total conversion to Federal identification will be completed throughout the military supply system by the end of calendar year 1958.

Another important program, which is basic to our progress in achieving integration, is the defense standardization program. During calendar year 1956, for example, standardization decisions stopped procurement of more than 190,000 generally similar items. It is estimated that this stoppage alone will eventually save about 2¼ million cubic feet of storage space and approximately one-fourth million man-hours annually in supply operations.

I have touched just briefly on some of the highlights of the efforts to achieve our mutual objective of a more efficient and economical supply operation in the Department of Defense. Over the last several years the Office of the Secretary of Defense has issued directives and instructions implementing over 200 facets and phases of this supply and distribution problem in carrying out the purposes of the section 638 of the Department of Defense Appropriation Act of 1953. These cover not only the areas I have discussed but also such matters as the determination of requirements, inventory levels of supply, purchasing, inspection, distribution, warehousing, transportation, depot utilization, port terminal facilities, traffic management, utilization and disposal of surplus, uniform reporting, etc.

As the above indicates, the Department of Defense has approached this problem in a realistic way consistent with big-business practice to achieve minimum costs. Great progress has actually been made and we are well organized to make further progress in the future.

I, personally, would like to move faster in the several fields which I have discussed, but changes must be introduced only as rapidly as the organization can be trained to absorb them and only after adequate preparation. This is particularly important in an organization as large as the Defense Department. Radical changes such as that involved in the proposed amendment, in my opinion, will undo a great deal of the progress that has been made to date, would create a period of confusion, and ultimately not result in any savings.

In the interest of the taxpayer and our national defense, as well as in the interest of preserving the substantial forward progress that has already been made in this field, I urge that the proposed amendment not be adopted.

Sincerely yours,

C. E. WILSON.

APRIL 25, 1957.

Memorandum for Rear Adm. R. J. Arnold, Chairman, Interservice Supply Support Committee.

Subject: Reimbursement for interservice supply support.

Attached are copies of memorandums to and from ASD (Comptroller) in response to General Brown's memorandum of October 25, 1956, on the above

subject. This has been a matter of considerable negotiation between the ASD (S. and L.) and ASD (Comptroller) staffs. The Office of the Comptroller is of the opinion that relief from BOB apportionment of stock funds is a long-range project, particularly in commodity areas now under ISSC groups. Pending resolution, it is felt that OASD (Comptroller) officials would be sympathetic to efforts of the services to budget, including in stock fund financial plans, for apportionments covering estimated amounts to be interserviced. It is recognized that such estimates, applied to the new and rapidly expanding program, will be difficult to make. However, this approach seems to offer the most immediate relief.

Meantime, it is felt that discussion by interservice supply support officials with service comptroller elements, in an effort to explain and publicize the problem, to enlist aid in providing budget estimates, and to emphasize the urgent need for relief from stock fund apportionment, would be most helpful. It is understood that the Air Force stock fund segment covering retail subsistence supply has been proposed as the first area for which apportionment relief will be requested. Since the interservice supply support problem area is most critical in wholesale stock not in the single manager commodities, the Interservice Supply Support Committee may wish to suggest a more considerable and appropriate commodity area for immediate review and application to BOB on a top priority basis.

It is felt that a discussion between the supply managers and OASD (Comptroller) representatives might prove beneficial. For this reason, this problem area will be made an agenda item on the next supply managers meeting. OASD (Comptroller) representatives will be present to participate in this discussion.

The meeting has been tentatively scheduled for May 8, 1957. Additional agenda items will be forwarded on or before May 3, 1957.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C., *January 23, 1957.*

Memorandum for the Assistant Secretary of Defense (Supply and Logistics).
Subject: Reimbursement for interservice supply support.

Reference is made to your memorandum of November 19, 1956, on the above subject.

The problem involved in making fund resources for procurement programs (including estimated earnings on interservice transactions) available to the activity rendering the supply service falls into two major divisions:

(1) Procurement financed by stock funds.
(2) Procurement financed by appropriations.

With respect to stock fund operations, we are completing development of stock-fund financial statements and budgets designed to strengthen management control of supply operations through emphasis on cash control rather than apportionments. In addition, and along the lines of your suggestion, we have already initiated action in seeking Bureau of the Budget consent to discontinue apportionment of the Navy stock fund and certain selected Army stock fund divisions beginning with the fiscal year 1958. Since these actions are underway, I do not believe it is necessary to conduct a joint evaluation to determine the "leader" stock funds to be exempted from apportionments.

Operating budgets for each stock fund major materiel category, corresponding to management responsibilities of inventory control points, include therein the materiel requirements to cover all estimated issues. Within each military department, budget authority is granted through allotments for authorized procurement regardless of the point in the departmental organization that cash realized from interservice sales is actually collected.

We are also engaged in preparing a DOD instruction which will establish a new system of funding and accounting for appropriation reimbursements. Under the system we have in mind, reimbursements to procurement appropriations will be made available, within broad limits to organizations directly responsible for managing procurement programs for their immediate use in financing authorized procurement.

It would be helpful if our staffs discussed the problems involved with respect to appropriation reimbursements. It is suggested that your representative get in touch with Mr. Robert B. Lewis (extension 73200).

LEE R. SHANNON,
Deputy Assistant Secretary of Defense.

DEPARTMENT OF THE ARMY

OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS

WASHINGTON, D. C., *October 25, 1956.*

Memorandum for the Assistant Secretary of Defense (Comptroller).
Through: The Assistant Secretary of Defense (Supply and Logistics).
Subject: Reimbursement for interservice supply support.

1. One of the chief objectives of the interservice supply support program, established by the joint agreement on interservice supply support, December 30, 1955, enclosure 1, is to effect maximum utilization of existing stocks of items common to more than one service, hereinafter referred to as interserviceable items. Under policies established by the interservice supply support committee and directed through service channels, inventory control points of the four services are required to cross check with each other in an effort to satisfy buy requirements for interserviceable items from existing Department of Defense stocks, in lieu of effecting new procurement.

2. Experience to date has shown complete willingness on the part of inventory control points to make long supply and excess stocks available to satisfy buy requirements of other services. On the other hand, inventory managers are reluctant to release stocks below this level to another service since there is no known method by which the inventory manager can use dollar reimbursements to replenish his stocks. This problem is considered to be a major stumbling block to achieving the degree of interservice utilization desired under the joint agreement and as contemplated by DOD 4140.6. Enclosures 2 and 3, recommendations from two inventory control points further emphasize the necessity for a reexamination of the funding policies involved.

3. Since the existing and proposed reimbursement policies discourage rather than encourage interservice supply support, the interservice supply support committee recommends initiation of remedial action.

FREDERIC J. BROWN,
Major General, GS,
Chairman, Interservice Supply Support Committee.

SEPTEMBER 21, 1956.

Subject: Interservice reimbursing procedures.
Through: Commander, Air Materiel Command, Attention: MCSY, Wright-Patterson Air Force Base, Ohio.
To: Mr. J. C. Rimkus, AFMSS–OP, Hq USAF, executive director for single-manager photographic area, Washington, D. C.

1. In analyzing the continental distribution patterns of supply support to determine cases where an activity or operating unit of one service can more advantageously draw its support from a nearby activity of another service, per charter CCG No. 9, it became apparent that very little real progress could be made under existing interservice reimbursing procedures.

2. Present and proposed reimbursing procedures provide no encouragement to a holding activity to release items to another service (other than excess and long supply items) due to the fact that he will be required to reprogram and refund the item prior to initiating procurement to replace the item. This action may require 12 months or more, which, added to manufacture lead time, may result in a time lapse of 24 months or more before he can replace the item.

3. Since this problem involves all four services, commodity coordination group No. 9 believes that it must be resolved at the DOD level. It is therefore being referred to you for action.

W. B. MANN,
Colonel, USAF,
Chairman, Commodity Coordination Group 9.

[Extract of letter, Navy General Stores Supply Office, 401 : bd CCG, September 28, 1956, Subject: Commodity Coordination Group (CCG) Report (reports control symbol ISSC-1002)]

(E) COMMENTS ON DOD FINANCIAL PLAN

Experience to date indicates that a "selling" ICP must be able to convert assets to procurement authority quickly if the CCG program is to be a significant device for avoiding long hauls to rebalance activity stocks. Accordingly, the

ISSC has been requested to provide for an automatic increase to ICP obligation authority equal to CCG releasable-asset sales.

The draft of a proposed DOD Instruction 1, forwarded by the Secretary, ISSC memo of September 17, 1956, designed to include provision for meeting this problem, has been reviewed. The DOD plan provides that ICP's will estimate in advance the amount of such sales and that credit for these will be provided in the regular budget process. Such an estimate appears most difficult to develop, since there is no assigned responsibility or pattern of supply support upon which to predicate the sales figure.

It is recommended that the ISSC reconsider the original proposal of enclosure (4) (2) for increasing procurement authority as CCG releasable-asset sales are made.

(1. Reference is to DOD Instruction 4000.17, October 9, 1956, Administration of Coordinated Procurement and Related Supply Programs.

(2. Referenced enclosure is attached hereto.)

UNITED STATES NAVY

GENERAL STORES SUPPLY OFFICE

PHILADELPHIA, PA., *April 19, 1956.*

From: Chairman, Commodity Coordination Group No. 2 (CCG–2).

To: Mr. T. W. Graves, Secretary, Interservice Supply Support Committee, Office of the Director of Supply Operations, Deputy Chief of Staff for Logistics, Department of the Army.

Subject: Exchange of releasable assets; reimbursement for.

Reference: (a) Joint meeting of CCG–1, CCG–2, and CCG–3 on March 19, 1956.

1. During reference (a), the ISSC staff indicated that it recognized that present provisions for effecting reimbursement upon a cross-service exchange of releasable assets might tend to discourage participation in the program. Specifically, since the inventory control point (ICP) selling releasable assets to another ICP does not receive the reimbursement the administrator of the appropriate stock fund does, this ICP is discouraged from releasing assets which might be attrited in the future in its own supply program.

2. It is the consensus of CCG–2 that the interservice exchange of releasable assets could be encouraged by providing that reimbursement be placed directly to the account of the transferring ICP, increasing its obligation authority. It is believed that considerations of timing, in particular, would make the concept attractive to the ICP's and that it would not reduce the effectiveness of regular financial-control procedures.

3. It is recognized that the regular budget/apportionment review cycle provides for the consideration of any special needs for funds which might arise because an ICP sold releasable assets to another ICP. It is also true, however, that this same routine of financial review can recover any excess funds or obligation authority from the account of an ICP. And this is the process visualized on an as-necessary basis under the proposal put forth in paragraph 2, above.

4. A change in financial-management procedures, to provide that a transferring ICP receive direct reimbursement in its account so as to augment its obligation authority, is recommended to the consideratiton of the Interservice Supply Support Committee.

STUART HENRY SMITH,
Commander, Supply Corps, United States Navy.

NOVEMBER 19, 1956.

Memorandum for the Assistant Secretary of Defense (Comptroller).

Subject: Reimbursement for interservice supply support.

The interservice supply support program, established by DOD directive 4140.6, is 1 of the 2 basic materiel-management programs fostered by this Office to achieve maximum utilization of all DOD materiel assets regardless of ownership. The directive was implemented by a joint military service agreement on December 30, 1955. Since that time, OSD, in cooperation with the departments, has directed efforts to assure successful pursuit of the program. The services have established a Joint Interservice Supply Support Committee to guide the pro-

gram, and have organized commodity coordination groups at the inventory control points to conduct operations.

Attached is a memorandum from the chairman of the Interservice Supply Support Committee enclosing comments from commodity coordination groups as to difficulties encountered in the replacement of military stocks that have been used in interservice transactions. It requests that remedial action be taken as soon as possible to insure success of the program. Basically, the problem involves development of a practical method by which the inventory-control points, under prescribed conditions, will promptly receive and be free to reinvest funds received from interservicing without further delay. As it is now, lack of such a practical method creates the possibility of at least temporary bankruptcy where large amounts are involved.

Partial relief from this difficulty is provided by DOD directive 4000.17 dated October 9, 1956, Administration of Coordinated Procurement and Related Supply Programs. The Interservice Supply Support Committee, however, feels that the relief afforded by this directive is inadequate.

The directive makes interservice payments available, on consumables only, to the extent that they can be forecast. These forecasts are to show payments for operating and reserve stocks separately from payments for long-supply stocks, and include estimates of the prices at which these transactions will be accomplished. Such forecasts are obviously extremely difficult, if not impossible, to make at this time. Further, the directive does not provide fund availability to the selling inventory-control point, but reverts the funds to the apportionment level of the department concerned.

In the attachment to the committee chairman's memorandum, a further point is discussed in reference to apportionment procedures in the stock-fund area. The cost consciousness and buyer-seller relationship advantages of stock funding can also be achieved by adaptations of the financial inventory accounting systems. Therefore, the chief advantages of stock funds to DOD are (1) the elimination of fiscal-year and funding limitations, and (2) provision for continuous logistics operations on the basis of careful planning and control rather than through apportionments and allocations. In apportioning the funds, these advantages have been largely lost.

In view of the attached memorandums and the need to provide maximum incentives under interservice supply support for the ready exchange of materiel assets between services, it appears timely for ASD (S. and L.) and Comptroller representatives to review these matters as a team, with a view to taking positive action.

It is recommended that:

1. S. and L. and Comptroller jointly evaluate military stock funds and the overall and segment records, operations, and plans, and determine which is the best managed and planned fund or segment. Following this, S. and L. and Comptroller should make a determined joint effort to have this "leader" fund exempted from apportionment. Such an action would generate a great deal of confidence in OSD and would, also, demonstrate the unmistakable virtues of good management, stimulating efforts to improve fund operation and planning.

2. S. and L. and Comptroller, in collaboration with the services, develop criteria under which funds derived from interservicing may be promptly applied for reinvestment or balanced-stock positions without delay, by the various inventory-control points. These criteria should then be incorporated in policy guidance.

Such actions can provide the needed flexibility as recommended by the General Stores Supply Office to insure proper incentives so that the full scope and benefits of the interservice supply support program will be made possible. They may also help to make stock-fund operations more efficient and more appealing.

R. C. LANPHIER, Jr.,
Deputy Assistant Secretary of Defense (Supply and Logistics).

HEADQUARTERS, FOURTH UNITED STATES ARMY

FORT SAM HOUSTON, TEX., *June 21, 1957.*

Subject: Reimbursement procedures.
Through: Commanding General, United States Continental Army Command, Fort Monroe, Va.
To: Comptroller of the Army, Department of the Army, Washington, D. C.

1. Reference letter, this headquarters, file and subject as above, dated March

5, 1957, and first endorsement, AGAO–CC 130, Compt–A (March 5, 1957), your headquarters, dated May 22, 1957.

2. It is requested that emphasis be placed on the recommendations contained in referenced letter.

3. The reason for urgency is the success of the interservice supply support program which has been implemented in this command and the desired expansion of the program wherever possible. It has been determined, due to the distances involved in this United States Army area, that a successful interservice supply support program will result in notable savings. However, it is doubtful that this program will succeed without practical, workable, and adaptable reimbursement procedures that are acceptable to all departments.

4. As stated in referenced letter, the ability of installation commanders to recoup, for immediate use, funds expended in support of this system will greatly contribute to the success of the system. The methods now used for financing supplies and services furnished other services, such as including funds in the budget of the servicing installation and the excepted accounting procedures in AR 35–273, are not considered as practicable as direct collection for reuse at installation level. When funds are included in the budget of the servicing installation, subsequent reductions in the annual funding program would result in a reduction of services or supplies to other departments of the Department of Defense, which would result in a degree of hesitancy on the part of other services to enter into agreements. The difficulties encountered in utilizing excepted accounting procedures were discussed in referenced letter.

5. In view of the problems encountered in effectively implementing the Department of Defense-directed interservice supply support program, it is requested that reconsideration be given to the use of some interim procedures permitting reimbursement at base and/or installation level, pending results of complete study referred to in first endorsement referenced in paragraph 1 above. Experience to date indicates that the present reimbursement procedures may adversely affect the success of the entire cross-servicing program.

PETER C. HAINS 3d,
Major General, GS, Chief of Staff
(For the Commander).

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C., *July 27, 1954.*

Hon. R. WALTER RIEHLMAN
Chairman of the Military Operations Subcommittee,
Committee on Government Operations, House of Representatives.

DEAR MR. RIEHLMAN: Through our conversations in the past and through appreciation of that accomplished by you and your committee, I have recognized your sincere interest and the efforts you have made to provide guidance for the development of a comprehensive program for correcting deficiencies in supply and stock management practices of the military departments. As a result of this fact, I feel it is appropriate to advise you at this time of the course of action which we have developed in this area.

We are greatly encouraged by the progress made in the field of supply and logistics to assure the accomplishment of the most effective and economical administration and management of the respective military supply systems.

To permit you to evaluate our program objectives, it is necessary to discuss some of the history and background which resulted in the development of our current program. Specifically, I have reference to the concept which provided for separate supply-systems studies in the area of common-use-type items of supply. These studies were carried on under the jurisdiction of the former Munitions Board. They were based on the premise that, by combining like inventories of all military stocks, economies in the total inventory held by the Department of Defense would result. Further, that different types of items of supply required different organizations and methods of receipt, storage, and issue of supply. In the method of approach, these studies were made for the services, rather than by them, for the purpose of insuring that unification of supply systems would thus be achieved. In general, it was then thought that centralization of supply-management functions by commodity segments would result in economy by such centralization.

The formulation of such premises under which the studies were conducted did not, however, take into consideration the basic principles governing military supply support. It did not give recognition to the basic fact that each military supply system is maintained solely to provide supplies as needed by the tactical force that they were called upon to support, and that such tactical force—Army, Navy, Marines, and Air Force—must develop its own requirements; further, that these requirements must be provided for at all times. When engaged in operations, the tactical commander cannot rely solely on resources which his service cannot control. He can rely on support of other services only to the extent that such support is available.

Taking due cognizance of the philosophy and approach established by these earlier supply systems studies and by giving recognition to the basic principles governing military supply support, an ad hoc committee on supply systems studies was established by this office with representation by the three top military supply managers and representatives of the Office of the Secretary of Defense; specifically, the Directorate of Storage, Distribution, and Disposal. The mission of this committee was to reevaluate the supply systems studies of medical-dental, subsistence and automotive materiel for the purpose of determining those recommendations which had already been adopted by the military departments, those which could be adopted, or those which could not be adopted in the form contained in the separate supply systems studies.

The committee arrived at several basic conclusions. Primarily, the supply systems studies, if all had been completed and implemented, would have established far more diversification in organization, methods, and forms than now exist.

Second, the combining of stocks of similar supply classes in a single but separate distributive system would not reduce the total volume of requirements of the four military services.

Third, the use of stock funds within each service facilities cross supply support and permits the use of judgment in total quantities to be on hand to support the service affected since the stock fund manager is responsible commandwise to that service.

Fourth, and of equal importance, is recognition of the fact that the original studies recommended jointly administered systems, each basically different. If the 14 studies had been carried out as planned, *there would likely be 14 different and separate systems where 4 now exist. Because of the joint management concept of the proposed systems there would be no agency except the Office of the Secretary of Defense to administer them.* [Italic supplied.] If the Office of the Secretary of Defense administered them, the responsiveness of the three military departments would be lost. Thus, the departments would not be separately administered, as required by statute, and the Office of the Secretary of Defense would become an operating agency and yet not tactically responsible for tactical operations. This would be a violation of fundamental military doctrine of proven worth.

The Alameda test was also a subject considered by the ad hoc committee. It is believed that this test has been much misunderstood. At a depot on the west coast, it had been decided to position all stocks for the Pacific coast and the Far East, regardless of whether it was necessary or advantageous. The total stock remained under control of the services represented. Total stocks for each service were established by each service and, as a result, there was no reduction of stock. This test resulted, for example, in backhauling from Alameda to the Naval Supply Center, Oakland, for all Navy ships. In the warehousing area, the criteria established were inflexible and often, where good supply management decision dictated delivery to user direct from producer, such action was set aside and delivery made to the central warehousing point.

The final and unanimous report of the ad hoc committee recognized the operational deficiency disclosed by the supply systems studies and approved the implementation of the original study recommendations which were directly concerned with operating deficiencies. It recommended that those recommendations included in the studies which required the establishment of separate distribution systems for different commodity types, each different from one another, be disapproved. Finally, it recommended that no further studies using the commodity segment approach be made.

The original study recommendations covering subsistence, medical-dental, and automotive equipment totaled 147. Of these, 104 have been implemented or await implementation, indicating that the substantive value of the studies has

been gained. However, it must be clearly recognized that the large number of recommendations indicated as already implemented by the military supply systems is not a direct result of the Munitions Board studies. Many of the features that were the subject of the recommendations were actually in effect prior to the conclusion of these studies and others were effected in the normal course of improving inventory management.

The continued existence of the supply systems study project precluded the treatment of basic supply problems across the board. Our present programs, now well established and advanced, require that basic supply policies applicable to all supply areas be developed and published; *that receipt, storage, and issue of supply, subject to control of the service owning the supplies, be treated as a common function within each service and the utmost standardization which is practicable and desirable be achieved in this area.* [Italic supplied.] Further, real economies in total volume of inventories will be achieved by shortening the length and volume of the pipeline; by storing high turnover items near the point of consumption and not at each stage in the pipeline; by improving (speedier) transportation; by use of financial data pertaining to inventories; by improving valid and accurate records upon which requirements and procurement are based.

Since the establishment of the Office of the Secretary of Defense, we now for the first time have within the Department of Defense a constructive and comprehensive program governing the military supply systems mutually established and unanimously supported. It is under the immediate direction and administration of Mr. Albert B. Drake, my Director of Storage, Distribution, and Disposal. Mr. Drake is singularly qualified. He is the founder and former president of the Lehigh Warehouse & Transportation Co., Inc., of Newark, N. J. He is experienced and well grounded in handling all phases of storage and distribution of many different types of materiel produced and utilized by our national industrial complex. This has fitted him exceptionally well as Director of this all important component of the Office of the Assistant Secretary of Defense (Supply and Logistics). He also founded in 1945 and served as president until 1949, the firm of Drake, Startzman, Sheahan, Barclay, Inc., materials handling and warehousing consultants. During World War II he gained broad experience in the field of military supply systems as Director of Depot Operations, Army Forces, Western Pacific, and as Director of the Storage Division, Army Services Forces.

Under Mr. Drake's immediate supervision and coordination, the top military supply managers—Maj. Gen. G. W. Mundy, USAF; Rear Adm. Murrey L. Royar, SC, USN; and Brig. Gen. A. T. McNamara, USA—meet regularly and for the first time have succeeded in burying service interests and developing among themselves a fine operating climate within which the remaining and much more important logistics problems are now being studied and solved objectively in the common good.

For your information, I am inclosing concrete evidence of the progress being made and which I am confident will continue to be made toward achieving the most effective and economical administration and management of the military supply systems. The program speaks for itself. In addition to the statement of programs, there are included copies of four directives, some already issued and others soon to be published. These directives are entitled, "Inventory Management," which establishes basic Department of Defense Policy for the management of inventories of materiel; "Materiel Pipeline—Military Supply System," which prescribed the Department of Defense policies governing the requirements for, determination, establishment, and administration of the elements in the complete materiel pipeline of the military supply systems; "Administration of Mobilization Reserve Stocks," which prescribes Department of Defense policies governing the administration of mobilization reserve stocks by the military departments and other military agencies with specific reference to retention, storage, and care and preservation of all material available or to become available for application against the mobilization reserve materiel requirement; "Management of Materiel in Long Supply," which establishes policies and criteria governing the management throughout the Department of Defense of materiel in long supply.

The statement of programs has received the full concurrence of the military departments and all elements of my office. The fundamental difference between the new approach used in this program and that previously established by the supply systems project is that *a commodity approach only solves commodity prob-*

lems whereas the functional approach covers all problems inclusive of the commodity treatment. [Italic supplied.]

Please be assured of my appreciation of your interest and cooperation in these vital matters.

Sincerely,

T. P. PIKE.

MILITARY TRAFFIC MANAGEMENT AGENCY

SINGLE MANAGERSHIP OF CONUS TRAFFIC

Failure of efforts to establish a mission for JLTA in the current scene

While the single-manager plan was still in its incubation stages, efforts were made to cope with the traffic-management problem along somewhat different lines. The unilateral activities of the services in this area had come in for rather sharp criticism at the hands of the Hoover Commission, the Congress, and others, and the Secretary of Defense was led to the conclusion that the existing pattern was not acceptable.[1]

Within the Defense Establishment the managerial, cost, and service elements in the traffic picture involved 18 organizational components, an estimated 7,000 people, and an annual cost for commercial transportation service totaling $1 billion. Within the DOD itself there was general recognition that this organizational setup was grossly inadequate to the needs of both peace and war. What was needed was an integration of effort that would make for maximum effectiveness and economy of operations. Only through such unity of organization and effort could the Defense Establishment achieve improved operations and mobilization readiness; optimum utilization of manpower, facilities, and transportation resources; streamlined relationships with industry; complete integration of rate negotiations and litigation activities; greater standardization of procurement and operating methods; sound management principles; improved coordination with procurement and distribution agencies; and more effective training of military and civilian personnel.

These objectives were beyond the scope and authority of the Joint Land Transportation Agency. The latter's charter of March 10, 1952, had limited the agency's peacetime efforts to emergency planning. In the ensuing years JLTA did a creditable job in planning uniform policies and procedures for emergency use by the military services and in effecting agreements with other Government agencies and carrier organizations to insure the smooth accommodation of military requirements under emergency conditions. Nevertheless, the fact remained that JLTA's usefulness in the current scene was negligible. Opinion in the Army persisted that the failure to assign to it common servicing responsibilities in the field of land transportation, commensurate with the charters held by the Navy (MSTS) for deep-sea shipping and by the Air Force (MATS) for air transport was a major deficiency requiring correction.[2]

Early in the fall of 1954, a move by the Assistant Secretary of Defense (Supply and Logistics) to effect some clarifying but inconsequential changes in the JLTA charter,[3] afforded the Army an opportunity to renew its bid for a more positive and meaningful role in DOD traffic management. The Army objected to the continued limitation of its DOD-wide coordinating responsibilities in terms of declared emergencies. It was the Army's view that uniform land traffic management practices should be adopted and implemented prior to an emergency to insure a better state of preparedness, to promote economy and efficiency, and to eliminate confusion which may arise at the outbreak of an emergency.[4]

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[1] DF, Maj. Gen. B. F. Hayford to ACOFT (Military Operations) et al., October 7, 1955, subject: "Military Traffic Management."

[2] Joint Land Transportation Agency, tab F, to Yount, Memo for Record, October 6, 1955, MTMA—Record of Events, item 5, MTMA files.

[3] Memo, T. P. Pike, ASD (Supply and Logistics) for ASD (Comptroller), ASA (Logistics and (Research and Development), ASN, ASAF (Materiel), and Secretary JCS, September 22, 1954, subject: "Land Transportation Responsibilities in the United States," and draft DOD instruction, same subject, JLTA files—Land Transportation Responsibilities in the United States (DOD Directive 4500.10).

[4] Yount summary sheet, November 4, 1954, subject: Land Transportation Responsibilities in the United States, JLTA files, same subject; memo, F. H. Higgins, ASA (Logistics and Research and Development) for ASD (Supply and Logistics), November 18, 1954, subject: "Land Transportation Responsibilities in the United States," and inclosed redraft of DOD instruction, JLTA files—Land Transportation Responsibilities in the United States (DOD Directive 4500.10).

The Navy and the Air Force developed a completely divergent view. In their judgment, the services should retain the existing system of unilateral responsibilities for traffic management. They proposed the establishment within the DOD of an independent joint military transportation agency, with responsibilities in regard to the use of all modes of domestic commercial transportation in CONUS during periods when such commercial transportation available to the DOD was not adequate. Such an agency would be headed by a directorate composed of representatives of the military services, with rotating chairmanship. The directorate would direct the work of the agency which would be jointly staffed and which would draw its administrative support from the Army.[5]

The same divergency of views emerged in the consideration of the matter at the JCS level. Upon review of this problem, JMTC concluded that the draft of the proposed DOD instruction forwarded by the Assistant Secretary of Defense (Supply and Logistics), "is not acceptable," and it advised the JCS of the need for resolving the divergent views.[6]

The JCS chose not to resolve the issue. In the opinion of the chairman, the matter was beyond the purview of JCS since departmental positions had already been established on this subject. Accordingly, the matter was withdrawn from JCS consideration for resolution at the secretarial level.[7]

Initial OSD proposal for unified military traffic management

(*a*) *Presentation of the concept.*—Following the stalemate on the revision of the JLTA charter, the OSD came up with a new proposal looking toward the "integration and consolidation at the operating level of all responsibilities and controls over the traffic management of freight and passenger movements via all modes of transportation within the United States" On October 6, 1955, Mr. Earl B. Smith, Director of Transportation and Communications, Office of the Assistant Secretary of Defense (Supply and Logistics), briefed the joint secretaries on this concept. Similar presentations were held before service representatives, DOD Assistant Secretaries, and members of the Hoover Commission staff. The proposal, in Mr. Smith's judgment, held out the prospect of a significant reduction in the number of traffic management offices and personnel required, with consequent substantial monetary savings to the Government.[8]

Under this concept, a Unified Traffic Management Agency, "Independent of the Technical Service System," would be established under the "executive direction and control" of the Secretary of the Army. The latter would be responsible for the operation of the Agency which would be governed by the policy direction of the Assistant Secretary of Defense (Supply and Logistics). The Agency would be commanded by an Army general officer. The latter would have a Navy or Air Force Deputy and Director of Operations, the latter 2 posts being rotated between the 2 departments. The Agency, with its headquarters at the seat of government, would have not more than five regional offices which would be commanded by military personnel (with the rank of colonel or captain, United States Navy, rotated equally among the services. Staffing of the Agency would be predominantly civilian, with a qualified civilian as deputy at each of the regional offices. Civilian personnel would be transferred from Navy and Air Force payrolls to Army payrolls within a ceiling approved by the Assistant Secretary of Defense (Supply and Logistics). Additional military staffing would be restricted to those required for military training, for coordination with other military programs, and for liaison with military activities. A timetable was set forth for implementation of the concept, and provision made for monthly performance and progress reports to be submitted by the Secretary of the Army to the Secretary of Defense during the first year following the establishment of the agency.[9]

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[5] See draft Department of Defense instruction, subject: "Joint Military Transportation Agency," annex 2, to Yount, Memo for Record, October 6, 1955, MTMA Record of Events, item 5, MTMA files.

[6] Report by the Joint Military Transportation Committee to the Joint Chiefs of Staff on Land Transportation Responsibilities in the United States, JCS 1672/174, May 3, 1955, OPI files.

[7] Summary sheet, Maj. Gen. Paul D. Adams, Acting ACS, G–3, June 9, 1955, inclosed draft memo, Gen. M. B. Ridgway, CSUSA, for SA, January 9, 1955, same subject, JLTA files—Land Transportation Responsibilities in the United States (DOD Directive 4500.10).

[8] See charts used by Mr. Smith in his December 19, 1955, briefing of the joint secretaries, MTMA Record of Events, item 34, MTMA files.

[9] Military traffic management: A Concept for Military Traffic Management for all Modes of Transportation Within the United States, n. d., MTMA Record of Events, item 6, MTMA files.

Following the October 6, 1955, briefing of the joint Secretaries, it was agreed that the proposal should receive careful study by the military departments "in order that a concept which would promote increased economy and effectiveness could be agreed upon." [10] To this end an interservice steering group and a supporting working group were constituted to work with Mr. Smith in the refinement of the concept.[11]

(*b*) *Divergent views and underlying issues.*—Intensive staff work through mid-November 1955 failed to bring interservice agreement on the OSD concept and proposed directive, or on any refinement thereof. Reporting to Mr. Wyeth on the progress at that time, Mr. Smith could point only to interservice agreement on a limited range of functions "susceptible of performance" by a centralized organization.

"Unfortunately, we have not yet reached agreement on a given concept acceptable to all, nor have we reached agreement as to the character of organizational structure which should be adopted, nor agreement as to the specific functions which should be assigned to a central traffic management group * * *." [12]

It was obvious from the first that the DOD concept and the draft directive stemming therefrom [13] reflected an attempt at a compromise of divergent views which had repeatedly blocked past efforts at interservice agreement. As drafted, however, the OSD proposal proved palatable to none of the departments.

Long an advocate of single-service responsibility for military traffic management, the Army agreed generally with the broad scope and objective of the DOD proposal. It took strong exception, however, to various features of the plan, particularly its restrictions on the managerial discretion of the Secretary of the Army and its joint staffing provisions.

On the first score, the proposed placement of the agency outside the technical service system, it was observed, would deny the Secretary the right to organize as he deemed appropriate for the discharge of his assigned responsibilities. To the Chief of Transportation, as traffic manager for the DA, and to the TC, with its headquarters and field-traffic management staffs well organized and capable of ready expansion, this was an issue of fundamental importance. Establishment of the agency outside of existing command channels might well have compromised the effectiveness of the Chief of Transportation and of the Transportation Corps. Strictly interpreted, moreover, some of the language of the statement of the DOD concept and draft directive, describing the proposed agency's reporting channels to the Secretary of the Army, would place the agency beyond the jurisdiction of the Chief of Staff, and would thus violate the spirit of the Army Organization Act of 1950. What the Army was seeking, in substance, was a single service assignment, with the authority and responsibility of the Secretary of the Army clearly defined and unfettered. As put by the head of JLTA early in the course of staffing the DOD concept within OCOFT:

"* * * It should be generally accepted that if the Secretary of the Army is to be held responsible for the implementation of this directive he must have the necessary authority to go hand and hand with the responsibility. This scope does not adjust to a joint agency concept as loyalties within a joint agency are divergent, and responsibilities are not. Consequently, the Secretary charged with the responsibility must be assured of the loyal cooperation of all assigned personnel. This can only be assured under the single service concept." [14]

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[10] George A. Wyeth, Jr., Special Assistant DOD, Advice of Action, October 7, 1955, subject: "Military Traffic Management Within the United States," MTMA Record of Events, item 30.

[11] Brig. Gen. E. C. R. Lasher, ACOFT (Traffic), served as Army member on the steering group. At the working group level, Army representation was provided by Mr. Roland L. Guyotte, chief policy adviser to General Lasher.

[12] Memo, Smith to Wyeth, November 14, 1955, subject: "Military Traffic Management Within the United States," Report of Progress, MTMA, Record of Events, item 23, MTMA files.

[13] Draft DOD directive, Establishment of a Unified Military Traffic Management Agency, n. d. (distributed informally to representatives of the military departments on October 21, 1955), MTMA, Record of Events, item 10, MTMA files.

[14] DF, Col. V. R. Johnson, ACOFT (JLT), to COFT, October 14, 1955, subject: "Military Traffic Management," MTMA, Record of Events, item 8, MTMA files; see also Yount, Memorandum for Record, October 6, 1955 (item 5); Steering Group on Formation of Unified Central Traffic Management Agency, Mtg. No. 1, October 25, 1955 (item 12); C. E. Short, OASA (Logistics), Memo for Record, October 25, 1955, subject: "Establishment of a Unified Military Traffic Management Agency" (item 11); Roland L. Guyotte, steering member, Army representative, et al., Memo for Director of Transportation and Communications, OASD (S. & L.), October 28, 1955, subject: "Establishment of Unified Military Traffic Management Agency (item 13); tab C of Notes for Briefing of Lt. Gen. Carter V. Magruder, DCSLOG, by Brig. Gen. E. C. R. Lasher, on November 15, 1955 (item 20)—all in MTMA—Record of Events, MTMA files; Lasher, DOD Single Traffic Management, Minutes, Transportation Terminal Commanders Conference, OCOFT, November 17, 1955, tab RR.

On the staffing side, the Army representatives voiced the belief (which was shared by their Navy and Air Force counterparts) that the OSD proposal placed too much emphasis on the civilian character of the agency. More freedom, it was felt, should be allowed in the assignment of military personnel in order to insure an adequate training base for overseas and mobilization personnel requirements. The Army took exception also to the proposed rotation between the Navy and the Air Force of deputy commander and director of operations of the agency, and to the rotation of regional office commanders among all the services. It appeared early, however, that if the Army could win on the issue of the organizational positioning of the agency, it might have to make concessions on these and other less consequential matters.

The Air Force and the Navy (including the Marine Corps) joined together and presented a single front. In line with their traditional stand on the matter, they indicated their opposition to centralized traffic management on the ground that this function was an inseparable part of any logistics system. While conceding that management and cost functions might be centralized to advantage, they argued that the routing and related service functions were not susceptible of assignment to a single agency, and that such an assignment would impair their ability to discharge their responsibilities for the support of the operating forces.

If required to accede to a proposal for unified traffic management, the Navy and Air Force representatives indicated their preference for a joint agency directly under the Secretary of the Department (not necessarily the Army) to which it was assigned and outside the military command channel. Such an agency would consist of a directorate headed by a chairman on a rotation basis, and an agency staff headed by a director to be named by the directorate and to rotate as between the departments. This was considered essential in order to avoid domination by one service. By providing for active participation by each service in the direction of the agency, "responsiveness by the agency to the logistics requirements of each service" would be assured.[15]

This Navy-Air Force position and alternate proposal were strongly contested by the Army representatives. Within TC, traffic management was viewed not as a subordinate element of supply, but rather as "a horizontal function, serving equally all elements of supply management, whether they be in the requirements, procurement, or distribution field." In this connection, the Hoover Commission had looked with favor upon the Army setup, where transportation was established as the responsibility of a single corps. Contrariwise, the Commission was critical of all other departments where "the transportation function is not consistently recognized on a basis matching its importance and costs." By the same token, the Commission's transportation task force had taken a dim view of the subordination of the General Services Administration's Traffic Management Division to "procurement" as a branch of the Federal Supply Service.

The Navy-Air Force proposal for a joint agency was deemed "wholly unnecessary." The JCS, it was contended, provided "all the necessary policy decisions, priorities, allocations, direction, arbitration, guidance, and trilateral representation." Moreover, the Secretary of Defense exercised his policymaking responsibility through his Director of Transportation and Communications, who in turn was guided by an advisory council provided by the military services. As a concession to the Navy and the Air Force, General Lasher offered for consideration the possibility of expanding the authority of this advisory council to include policy surveillance over the proposed agency, MATS and MSTS.[16] The Army's objection to a joint structure was further predicated on the conviction that such a setup was unwieldy, cumbersome, indecisive, and uneconomical, and that it would prevent vital immediate action required in peacetime or war emergencies.[17]

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[15] Memorandum Report of Progress of Steering Group on Military Traffic Management Within the United States, tab 1 to memo, Reuben B. Robertson, Jr., Deputy SD, for SA, SN, SAF, December 12, 1955, subject: "Military Traffic Management Within the United States, MTMA—Record of Events, Item 30," MTMA files; see also Steering Group on Formation of Unified Central Traffic Management Agency, Mtg. No. 1, October 25, 1955 (item 12); Navy-Air Force Proposal for a Joint Agency as Alternate to DOD Concept, November 3, 1955 (item 17); Short, Memo for Record, November 14, 1955, subject: "Establishment of a United Traffic Management Agency (item 23)"; tab B to Notes for Briefing of Lt. Gen. Carter V. Magruder, DCSLOG, by Brig. Gen. E. C. R. Lasher, on November 15, 1955 (item 20)—all in MTMA, Record of Events, MTMA files.

[16] Short, memo for record, November 14, 1955, subject: Establishment of a Unified Traffic Management Agency, MTMA, Record of Events, item 25, MTMA files.

[17] Tab D to Notes for Briefing of Lt. Gen. Carter V. Magruder, DCSLOG, by Brig. Gen. E. C. R. Lasher, on November 15, 1955, MTMA, Record of Events, item 20, MTMA files.

(c) *Changes in the original DOD concept.*—In light of the views thus put forward in the deliberations of the steering group, Mr. Smith undertook to modify his original concept. The changes proposed, however, did not go to the heart of the issues in dispute. Provision was made for general or flag rank for the three top officers of the agency—the permanent Army head, his Deputy, and his Chief of Staff or Director of Operations. While the concept of civilian management was again emphasized, language was added to provide for the establishment of offiecr training billets. Finally, a Traffic Management Board was to be constituted to provide guidance to the agency with respect to operational requirements of the services. Each department would have representation on this Board, with a permanent chairman designated from the OSD staff.[18]

Various aspects of the revised concept were thoroughly aired at a meeting of the DOD steering group, December 16, 1955. Agreement on this modified version, however, could not be reached. Accordingly, on the recommendation of the steering group, Mr. Smith announced that the revised DOD proposal would be referred to the departmental Secretaries for their formal consideration.[19] The revised statement of concept and draft directive went out to the departmental Secretaries, December 12, 1955, with the following request from the Deputy Secretary of Defense:

"In order that we might move right ahead in this area, I would like for you to consider this draft directive and be prepared to discuss it at the December 19 meeting of the Joint Secretaries."[20]

Except for the three points mentioned above, the revised conceptual statement and draft directive were no different from the original versions. Within the Army, high-level briefings for projected meetings of the Joint Secretaries focused on the objectionable restrictions imposed on the Secretary of the Army in organizing and staffing the proposed agency. Such restrictions, it was reiterated, would prevent delegation of responsibilties to the Chief of Transportation and the TC, and would contravene the permanent organizational structure of the Army. Further, they conflicted with the Hoover Commission task force's recognition of the role of the corps, and with the DOD single-manager concept.[21] Though no conclusions or decisions were reached in anticipation of the December meeting, the Acting Secretary of the Army was advised to take the position that the DOD proposal "be referred to the military departments for proper staffing and recommendation before the Secretary of Defense makes a final decision."[22]

Prescription of a uniform framework for single managership

The December 19 meeting of the Joint Secretaries went far to break the interservice deadlock. Reporting on the status of the work of the steering group, Mr. Smith indicated that "a major point" of disagreement related to the organizational concept for carrying out the DOD responsibility in the traffic-management field. After considerable discussion, the consensus of opinion was that, "the time was no propitious to come into agreement on an organization concept * * * through which managerial responsibility for common-use items and services within the Department of Defense could be exercised." Accordingly, the Joint Secretaries were called upon to be prepared to discuss a general organizational concept which could be adopted not only in the traffic-management field, but across the board in all applicable logistics and supply management areas.[23]

By mid-January 1956, Secretary of Defense Charles E. Wilson indicated his decision to proceed with the orderly and uniform extension of the single-manager

[18] Memo, Robertson for SA, SM, SAF, December 12, 1955, subject: Military Traffic Management Within the United States, and includes MTMA, Record of Events, item 30, MTMA files.

[19] Short, memo for the record, November 17, 1955, subject: Establishment of a Unified Traffic Management Agency for DOD, MTMA, Record of Events, item 26, MTMA files.

[20] Memo, Robertson for SA, SN, SAF, December 12, 1955, subject: Military Traffic Management Within the United States, and incls, MTMA, Record of Events, item 30, MTMA files.

[21] See briefing of General Colglazier on military traffic management in the United States, December 14, 1955 (item 32); briefing by General Lasher to Acting Secretary Finucane re military traffic management within the United States, n. d. (c. mid-December 1955), item 33; memo, Yount for Maj. Gen. A. T. McNamara, Director of Supply Operations, DCSLOG, December 28, 1955, subject: Traffic Management—Military Traffic Management Within the United States, MTMA, Record of Events, item 36, MTMA files.

[22] Lasher, memo for record, December 19, 1955, MTMA, Record of Events, item 35, MTMA files.

[23] Wyeth, Advice of Action, December 21, 1955, subject: Traffic Management Within the United States, MTMA, Record of Events, item 37, MTMA files.

plan to common-use items and common-service activities.[24] To avoid "misunderstanding on policy or intent," he proceeded to spell out the basic organizational framework and functional relationships which were to guide all single-manager assignments. Full commercial and financial techniques, including sound accounting practices, were to be incorporated into the system. This common pattern, with some flexibility, was to be extended "as rapidly as possible in the supply field to petroleum, medical-dental, clothing-textiles, photographic equipment, and in the service field to traffic management." The single-manager structure previously set up for subsistence, and the organizations of MSTS and MATS, were to be amended to conform to the pattern laid down.[25]

Under this pattern, authority and responsibility for any particular commodity or service area would be assigned to a departmental Secretary. It would be left to this Secretary, as single manager, to make appropriate organizational arrangements for the execution of this responsibility through an operating agency. The single manager would designate, with the approval of the Secretary of Defense, and "Executive Director" to head the agency. The Executive Director would devote his full efforts to the direction of the agency's functions, and would be responsible to the departmental Secretary "through channels prescribed by that Secretary."

In the composition and functioning of the agency, "optimum use" would be made of the "facilities, skills, personnel, and organizational units previously engaged in similar pursuits, both in the single manager's department and in the other military departments." The latter would eliminate their duplicate functions and activities upon the implementation of the single-manager assignments. The agency staff would be composed of civilian and military personnel "from one or more of the military departments, as appropriate."

As an integral part of this common organizational pattern, an "administrative committee" would be constituted for each single-manager assignment. The committee would function neither as "a policy board" nor as an "executive directorate," but rather as "a group of specialists meeting to recommend solutions of particular problems and to promote the effectiveness and economy with which the agency meets the needs of the military departments." The committee would be composed of the executive director as chairman, and single representatives from the three departments, the Office of the Assistant Secretary of Defense (Comptroller), and the Assistant Secretary of Defense "appropriate to the commodity or service," together with such augmentations as might be needed to obtain technical or professional advice.[26]

Agreement on single management for CONUS traffic management

(*a*) *Resolution of outstanding issues.*—Guided by these dictates from Mr. Wilson, the Office of the Assistant Secretary of Defense (Supply and Logistics) and the departments proceeded more rapidly with the placement of traffic management under a single managership. On February 3, 1956, a revised DOD directive and conceptual statement, more in keeping with the Wilson pronouncement was forwarded to the three departments for comment.[27] In order to effect a coordinated reply, Army representatives checked with the Navy and Air Force to obtain their views on the revised draft directive.

It appeared from the outset that representatives of all services were in agreement except as to the details of joint military staffing. In collaboration with the Navy and Air Force, the Army redrafted the proposed DOD directive to clarify points and in some instances to remove questionable or otherwise objectionable content. Among other things, the Army version sought to delete restrictions on the managerial discretion of the Secretary of the Army which went beyond the intent of Mr. Wilson's policy pronouncement; to incorporate the substance of the statement of concept into the directive proper; to insure the transfer of necessary personnel and funds; and to eliminate operational details which, it was thought, should be left to the judgment of the Executive Director or included in the im-

[24] Wyeth, memo for record, January 16, 1956, subject: Managership by a Single Department of Department of Defense Responsibilities for Common Use Items and Services, MTMA, Record of Events, item 38, MTMA files.

[25] Memo, Wilson for SA, SN, SAF, January 31, 1956, subject: Single Manager Assignments, MTMA, Record of Events, item 42, MTMA files, see appendix 1 below, p. 33.

[26] DOD Directive No. 5160.12, January 31, 1956, subject: Policies for Implementation of Single Manager Assignments.

[27] Memo, Pike for ASA (Logistics), ANS (Material), ASAF (Materiel), ASD (Comptroller), and ASD (Manpower, Personnel, and Reserve), February 3, 1956, subject: Establishment of Military Traffic Management Agency and incls, MTMA, Record of Events, item 44, MTMA files; see appendix 1 below, pp. 34–40.

plementing plans that were to be submitted by the single manager to the Secretary of Defense for approval.

On the matter of staffing, the OASD (S. and L.) still thought in terms of having a Deputy and Chief of Staff (or Director of Operations) rotated between the Navy and the Air Force and "directly" assisting the Executive Director in the operation of the Agency. Its draft also continued the earlier provision for a rotating headship of each regional office, "with incumbents, as nearly as possible, being equally divided among the departments at all times."

The Army objected to the proposed Navy and Air Force representation at the agency headquarters, though it was amenable to having the Executive Director assisted by one officer each, of flag or general rank, from those two departments. The Army further objected to having Navy or Air Force officers heading the regional offices, on the ground that such an arrangement would preclude full responsiveness to the concept of unity of command. As General Yount put it:

"Army position reflected in revised (Army) draft is not opposed in principle to joint military staffing of the Agency by competent officers from all services, nor to proration of military assignments among the services. However, Army officers should command Agency regional offices, as well as the Agency itself, if the Secretary of the Army is to be responsible for military traffic management and to be accountable to the Secretary of Defense for its operations. Unity of command within the Army is considered not only desirable but essential if the Agency is to operate effectively and efficiently." [28]

In this view General Yount had the backing of higher authority within the Army.[29]

The Navy and the Air Force, on the other hand, took the position that all military posts below that of the Executive Director be altered among the departments on a basis to be agreed upon by the departmental Secretaries. This contention was predicated upon the need for training; for maximum use of skills; and for the provision of incentives for Navy and Air Force military personnel in the traffic management field. As the Navy put it:

"Only by joint military staffing can the single manager and the departments be assured that such an organization is constantly staffed with military personnel in control positions whose training and experience will insure complete responsiveness to all departments logistics requirements. All military departments presently have officers qualified in the field of traffic management. The utilization of these military personnel in a Military Traffic Management Agency is consistent with the policy expressed * * * (in DOD Directive No. 5160.12)."

Provision for joint staffing of military billets, subject to agreement by the departments, the Navy contended, was needed to insure permanent responsiveness to military departments needs, to provide appropriate career incentives to military personnel of all services and to guarantee the utilization of qualified officers of all services.[30]

The Army position was not favorably received in the OASD (S. & L.). The latter, in a rewrite of its draft directive, had deleted the earlier provision for an alternating Navy and Air Force Deputy and Chief of Staff (or Director of Operations) directly assisting the Executive Director. In defining the staffing pattern, however, it accommodated to the Navy and Air Force points of view by leaving it to the departments to agree upon the assignment of officers of any service to all positions other than that of Executive Director in the single manager's organization. The matter of departmental representation in staffing was thus put in broad and general terms, to wit:

"Positions within the agency will be identified as military or civilian based on criteria established by the Secretary of Defense. Military staff positions subordinate to the Executive Director in either the agency headquarters or its regional and branch offices, will be alternated among the military services as agreed to by the single manager and the Secretaries of the other two military departments, which due consideration being given to the qualifications of the individuals concerned and career program needs of each military department."

It was contemplated that the Secretary of the Army, as single manager, would

[28] Cmt 2 and incl, Yount to DCSLOG, February 13, 1956, subject: Establishment of Military Traffic Management Agency, MTMA, Record of Events, item 46, MTMA files.

[29] DCSLOG Summary Sheet, February 15, 1956, subject: Establishment of a Military Traffic Management Agency, MTMA, Record of Events, item 47; memo, Higgins for ASD (S. and L.), February 24, 1956, same subject, MTMA, Record of Events, item 52, MTMA files.

[30] Memo, R. H. Fogler, ASN (Material) for ASD (S. & L.), February 20, 1956, subject: Establishment of a Military Traffic Management Agency, and incl, MTMA, Record of Events, item 53, MTMA files.

name as the head of each regional office "an individual with the highest qualifications obtainable." [31]

Disagreements of a less serious nature also developed as between the three departments on the one hand and the OASD (S. & L.) on the other. These related to the listing of functions to be performed by the agency, to the designation of the number of regional offices for the agency, and to the scheduling of implementing actions.

As to the first issue, the Army's redraft of the DOD directive, concurred in by the Navy and the Air Force, eliminated the listing of proposed functions. The departmental representatives felt that such listing should be made part of the agency plans for implementation which were to be submitted to the Secretary of Defense for approval. The OASD (S. & L.), on the other hand, viewed its approach as "more definitive and yet * * * not limiting in nature." Exclusion of the statement of functions from the directive, the OASD (S. & L.) asserted, "can result in delay and procrastination in the development of approved terms of reference as between the departments which will be essential to the early and orderly implementation of the single manager assignment."

The OASD (S. & L.) draft would have limited the number of regional offices of the agency to not more than five initially. The departments took exception to this restriction. It was their thought that the single manager should be free to determine his organizational requirements, and that these matters should similarly be part of the implementing plans to be developed. The OASD (S. & L.), however, deemed it "extremely important" that a limit be placed on the initial activation of regional and branch offices, and that any changes therein be made subject to approval by the Secretary of Defense.

"* * * Experience has proven that the past proneness of the services to establish traffic management field offices has been wasteful and a major cause of difficulty to the transportation industry. The natural geographical location of military traffic management operations and the present workload within the United States presents no problems, which in the judgment of the designers of this concept, warrant more than five properly located regional offices. The exclusion of this organizational requirement from the proposed directive can also result in delay and procrastination. The services would be logically insisting, from their point of view, on the establishment of regional offices in a manner particularly suitable to their respective interests rather than the overall Department of Defense interest."

Finally, the departments objected to having a schedule of implementing actions written into the directive. This point, too, it was felt, should be part of the overall plan for implementation of the single manager assignment. The OASD (S. & L.) contended, however, that its approach afforded better protection of the best interest of all departments and of the Secretary of Defense.

"* * * It is a matter which is readily susceptible to adjustment, if substantiating facts warrant. The schedule of implementing actions will assure the absence of a tendency to impractical precipitous action and also prevent unnecessary delays by all concerned. It assures the Secretary of Defense a reasonable time expectancy of accomplishment of his direction without the need for detailed resolution of differences which can arise among the services, if the schedule is excluded from the directive."

Confronted with this seeming impasse, Mr. Pike requested Secretary Wilson's approval of the conclusions of his office in respect to the above four areas of disagreement.[32] Since the departments were, in fact, close to full agreement, Secretary Wilson was not inclined to abandon the course of departmental coordination. In subsequent discussions at the Army secretarial level, General Yount indicated his disagreement with the exceptions taken by the OASD (S&L). There appeared to be a disposition, however, to go along, if necessary, with the staffing provisions of the proposed directive in order to expedite the attainment of single managership in the traffic field.[33] Mr. Pike was advised of the Army's willingness to yield on this point. At the same time, the Army indicated its nonconcurrence in those portions of the directive which specified the number of regional offices that could be established, and its belief that the schedule

[31] See Draft DOD Directive, subject: Single Manager Service Assignment for Traffic Management Within the United States, tab B to Covering Brief from ASD (S. & L.) to SD, n. d. (received April 10, 1956), MTMA, Record of Events, item 70, MTMA files.

[32] "Covering Brief" and incls, from OASD (S. & L.) to SD, n. d. (received April 10, 1956), MTMA—Record of Events, item 70, MTMA files.

[33] Col. Ralph Arthur, DCSLOG, Memo for Record, April 12, 1956, subject: "Single Manager Assignment for Traffic Management," MTMA—Record of Events, item 82, MTMA files.

of implementing actions set forth was unrealistic. In light of these observations, Mr. Smith undertook to make appropriate adjustments in the language of the draft DOD directive.[34]

Thus, with the Army yielding on the staffing issue and the OASD (S&L) capitulating to the services on the matter of field offices and on the scheduling of implementing actions, the major obstacles to full agreement were removed. At Navy insistence, language was written into the directive to clarify the authority of the proposed agency and of MSTS in regard to intercoastal and coastwise shipping and to accommodate to other points of minor detail. A compromise directive was quickly whipped into shape and was promulgated by Deputy Secretary of Defense Robertson, May 1, 1956, "effective immediately."[35]

PART III. SURPLUS

Summary and Table of Contents

SURPLUS PERSONAL PROPERTY

I. INTRODUCTION

A. Directive

On February 22, 1957, the Committee on Appropriations, House of Representatives, directed continuation of the investigation of procurement policies, initiated April 4, 1955, and increased the scope to include, among other matters, an inquiry into factors which cause generation of surplus property and efficiency of disposal of such surplus property.

B. Scope

Officials at all levels of the Department of Defense (DOD) and of the field organizations of the military services responsible for the development of policy were interviewed. Inquiries were conducted in the United States and overseas at military installations concerned with the operations of the surplus property disposal program. Representatives of General Services Administration (GSA) were interviewed. Reports of previous studies which called attention to the problem areas associated with the disposal of surplus property were reviewed and analyzed.

II. BACKGROUND AND MAGNITUDE OF MILITARY SURPLUS DISPOSAL PROGRAM

World War II generated huge quantities of surplus military property which resulted in the establishment of special surplus property disposal agencies. These agencies annually disposed of an average of about $3.5 billion worth of surplus property. It has been estimated that approximately one-half of the $50 to $60 billion inventory of personal property now held by the military services will eventually become excess. DOD is faced with the continuing problem of disposing of at least $6 billion worth of surplus property per year as long as the United States must maintain its present defense position.

[34] Short, Memo for the Record, April 19, 1956, subject: "Single Manager Service Assignment for Traffic Management," MTMA—Record of Events, item 91, MTMA files.
[35] DOD Directive 5160.14, May 1, 1956.

III. FACTORS CAUSING GENERATION OF EXCESS AND SURPLUS PERSONAL PROPERTY

As used throughout the military services, excess personal property is that which has been determined to be unnecessary to the requirements of the DOD, and surplus personal property is that which has been determined to be excess to all Federal agency requirements.

The staff has concluded that some of the important elements which contribute to the generation of excess personal property are:

A. Requirements

The programs and procedures utilized as a basis for computation of requirements are sometimes unrealistic and do not adequately consider common-use items. Personnel responsible for actual development of requirements are not always fully advised of contemplated changes in military programs, which results in unrealistic statements of requirements for items.

B. Multiple Layers of Stock Retention Levels

The DOD still allows a number of stock retention levels, other than the normal peacetime operating stock level, despite the recognized fact that such multiple retention levels magnify the excess and surplus property utilization and disposition problem. Consolidation and reduction of these levels to any degree would diminish the volume of surplus property being generated.

C. Development of Requirements for Spare Parts

Staff analysis of situations involving excessive stocks of spare parts found at various depots leads to the conclusion that spare parts for motor vehicles and other equipment have been procured on other than a realistic basis.

D. Failure to Coordinate Disposal of Spare Parts with Related End Items

Insufficient effort is made to coordinate information concerning the availability of spare parts with end items becoming excess or surplus. This results in reduced utilization of excesses within the military and other Government agencies. Failure to advise prospective buyers as to the availability of spare parts minimizes returns from sales of end items.

E. Operating Procedures

1. overhaul and repair operations

Huge quantities of used property are stored and scheduled for repair or reconditioning. Subsequently, much of this property is declared to be excess and disposed of as surplus. A more realistic approach to the retention, storage and scheduling for repair would expedite disposal action and materially reduce costs.

2. automatic return system

Many of the benefits sought to be attained by the Air Force automatic return system are being lost because of the failure of the prime

depots to make timely and thorough evaluation of declarations of excess stocks received from the bases. As operated, the system results in unnecessary property movement and costly disposal delays.

3. LOCAL-PURCHASE PROCEDURES

The local-purchase programs of the military services contribute to the generation of excess property, especially in the nonreportable categories. The programs developed and utilized by the services should be coordinated by the Secretary of Defense with the view of achieving efficient and economical operations in this area.

4. INVENTORY POLICY AND PROCEDURES AFFECTING SURPLUS GENERATION

Staff review of inventory practices followed by the services leads to the conclusion that the perpetual-inventory method which is followed generally by the Air Force is the most accurate and therefore, if results are properly evaluated, will contribute less to the generation of surplus than the shut-down method. Inaccurate or outdated inventory information generates new requisitions for property that is often in the supply system.

F. Other Factors

1. STANDARDIZATION OF DESIGNS AND SPECIFICATIONS

Standardization of designs and specifications will reduce the generation of excess and surplus property by decreasing the number of items in the system. Bearings, handtools, and uniform cloth are good examples of items susceptible to standardization. The Federal stock catalog program is demonstrating the possibilities in this area.

2. ITEM SUBSTITUTION

Failure to utilize substitute items in lieu of new procurements results in the generation of surplus property. More inclusive reporting of excess items will facilitate full utilization of excesses in the system. Current unrealistic reimbursement regulations contribute to the problem.

3. EQUIPMENT WITH SHORT SHELF LIFE

The staff observed that stocks having a short shelf life, such as photographic film and paper, and other dated items, contribute to the generation of surplus property.

Manufacturers, being in position to rotate stocks more readily than the services, should be encouraged to assume storage responsibility for such items until required for use by the services. This will reduce the generation of surplus property.

IV. UTILIZATION OF EXCESS PROPERTY WITHIN THE MILITARY

A. Methods and Extent

1. REPORTABLE PROPERTY

The Material Redistribution Division (MRD) was established by the DOD to assure maximum utilization of available excess personal

property within the services. During fiscal year 1957, however, only a little over 4 percent of the approximately $2 billion worth of such property reported to the MRD was utilized within the services. MRD is not empowered to require utilization of excess property by any of the services.

2. NONREPORTABLE PROPERTY

During the past four fiscal years (1954–57), the volume of nonreportable excess property generated within the DOD has been at least twice as great as the reportable excess generated. However, such property is not screened through MRD for further utilization within the services. Local screening for further utilization is done on a voluntary basis only and within very limited areas. Much more military utilization would be accomplished if broader screening were mandatory.

B. Obstacles to Utilization

1. REIMBURSEMENT REQUIREMENTS FOR EXCESS STOCK FUND PROPERTY

Existing policies and regulations governing stock fund reimbursements create a situation whereby organizational segments of the Army, for instance, are required to pay full cost for intraservice excess property; whereas, interservice transfer of the property can be accomplished on the basis of reimbursement at 50 percent, or less of the acquisition cost. Excess property cannot be acquired on an intraservice basis without reimbursement but it can be so acquired by approved organizations outside the military. Uniform policy and regulations on inter and intraservice reimbursement for excess stock fund property with minimum reimbursement required would greatly increase utilization of such property and would eliminate new procurements.

2. LACK OF KNOWLEDGE OF AVAILABLE EXCESS

The staff observed that personnel at the operating levels, who actually are requisitioning property, do not have complete and timely information regarding surplus items which are available. Such information, if promulgated to the proper levels would operate to increase the utilization of excesses within the military services.

V. DISPOSAL OF SURPLUS PROPERTY

A. Multiple Policies on Property Disposal

The wide variance between actions at command levels and DOD policy statements on surplus property disposal demonstrates the multiple and varied interpretation the services have placed on the policy statements. Such divergent handling of common problems results in buyer confusion and dissatisfaction, and unnecessarily increases costs of disposal. Existing DOD policies should be reviewed, revised, and made uniform.

The policies of the GSA, the Department of State and the Department of Justice affecting military surplus property disposal should be coordinated through one central DOD agency for all the military services.

B. Methods of Disposal of Surplus Property

During fiscal year 1957, surplus personal property disposed of represented an acquisition cost of over $4 billion. About one-half of all dispositions were in the form of scrap. Some $1.3 billion was sold as usable and salvage material on which $111 million or about 8.1 percent of acquisition value was realized. In addition to that which is sold, property declared surplus is disposed of by donation, abandonment, or destruction. The fiscal restrictions on intraservice transfer of excess stock fund property discourage full utilization within the services and frequently results in donation to non-Government agencies. Sales methods employed by the services, including sealed bids, spot bids, auctions and negotiation, are not uniform due to the many varying regulations of the services. Sealed bid sales do not produce maximum revenue because they are encumbered by too many contractual clauses and no recourse is afforded the bidder for misleading description of property offered for sale. Poor lotting of property causes low bidding. Spot bids, retail sales, and negotiated sales should be emphasized more. Merchandizing techniques should be improved.

Consolidation of disposal operations should be accomplished in geographical areas conducive to such consolidation.

C. Staffing for Disposal

Usually a military officer is the principal disposal official. Staff observations were that military officers do not like assignments to utilization and disposal organizational units, as consensus is that such assignment does not further their military careers. In view of announced DOD policy regarding circumstances under which military personnel will be assigned to management positions, there appears little justification for the assignment of commissioned officers to disposal operations, except abroad. Civilian disposal supervisors are mostly in grades GS–6 to GS–9 without any particular relationship between GS grade and the degree of responsibility.

Each military installation should have one disposal supervisor responsible for both utilization and disposal, and he should be responsible only to the commander of the installation.

D. Facilities

The facilities provided for handling of excess and surplus property on the majority of the installations visited by the staff were usually the least desirable facilities on the installation. They were often widely scattered, causing excessive handling of property and making inspection by buyers difficult. Covered space was marginal or entirely inadequate. Poor facilities cause property deterioration and result in low sales returns. Great improvement would result from compacting and purging of stocks now in warehouses.

VI Résumé of Department of Defense Implementation of Recommendations Made by Previous Survey Groups

Inquiries into the surplus activities of DOD have been made by various groups in the past several years. In most instances some effort has been exerted by DOD to adopt the recommendations made, but

there has been little real improvement. The greatest single obstacle to the full implementation of these recommendations for improvements in the surplus personal property programs has been the inability to get the complete concurrence of the three separate services in any proposed action.

APPENDIX

Staff analysis of actions taken by DOD on the recommendations of the Hoover Commission report on surplus property (1955).

I. Introduction

A. DIRECTIVE

The Committee on Appropriations under date of February 22, 1957, directed the Surveys and Investigation staff to continue the inquiry into procurement policies and practices of the Department of Defense (DOD) initially authorized by committee directive of April 4, 1955. Reports on this matter were submitted by the staff, under dates of January 4, 1956, and January 20, 1957.

While the current inquiry covers, in general, a continuation of the 1955 directive, the committee increased the scope of the assignment to include:

(1) Methods (and effectiveness thereof) used in determining unit costs and quantitative requirements for end items and for spare parts.

(2) Efficiency in operations of domestic and overseas supply services.

(3) Factors which cause generation of surplus property and efficiency of disposal of such surplus property.

(4) Nature and extent of corrective measures taken to improve efficiency in contract operations.

B. SCOPE

The scope of the directive was sufficiently broad that almost any time period ranging from weeks to years could have been allocated for the prosecution of the inquiry. Considering the vastness of the procurement, supply, and surplus programs of the DOD, it was believed that a more useful report to the committee could be prepared by defining the scope to be compatible with the time available.

Unfortunately, some areas have not been as fully explored as might be desirable. These include offshore procurement matters, local purchase programs, procurements in connection with military construction projects, and problems associated with the generation and disposal of contractors' surplus equipment.

Some interested persons have expressed the view in past years that the staff reports were devoted largely to an analysis of individual procurements and were silent in regard to overall efficiency or lack thereof. It seems obvious that reviews such as the present one cannot result in complete endorsement of the programs of the services. Equally important, the staff findings should not constitute the basis for condemning operations as a whole.

In the current study, major emphasis has been placed upon reporting broad areas where improvements are most likely to result in substantial savings or to most effectively promote better management. Even though it be assumed that in fulfilling its broad mission the Military Establishment is performing effectively, it does not follow that there is no room for improvement.

The cooperation afforded the staff by the services throughout the inquiry was excellent. The only exception is that the Office of the Quartermaster General still insists upon having legislative liaison representatives waste their time participating in the staff's inquiries. No one has ever explained to this staff why Quartermaster personnel need the services of a lawyer while being interviewed by staff representatives.

In the interest of making the findings as useful as possible, the report is presented in 3 parts, 1 devoted to each of the major phases of the survey. Operations of the DOD in the fields of procurement, supply, and surplus are so closely related that it has been impossible to cover any one of them without, to some extent, touching upon the others. There is, therefore, a certain amount of unavoidable duplication in the text devoted to each of the subjects.

In conducting the inquiry into the causes of generation and efficiency of disposal of surplus property, staff members conducted interviews with the Assistant Secretary, Supply and Logistics, DOD, and attended briefings conducted under his cognizance at which representatives of the Air Force, Army, Navy, and Marine Corps presented data concerning policies and procedures in the surplus property area applicable to the individual services. Staff members visited and conducted inquiries at a number of military installations, in the United States and overseas, which were responsible for the direction of the surplus property programs or were engaged in surplus property disposals. During these visits sales of surplus property were observed by staff members, potential surplus property buyers were interviewed, and salient features of the sales procedures were analyzed and evaluated. Representatives of the General Services Administration who are responsible for the disposal of all government surplus property were interviewed. The activities of the Materiel Redistribution Division of the DOD were reviewed in detail. Reports of prior studies by various groups were reviewed and analyzed.

The staff approach was to ascertain how the surplus property of the military is generated, what can be done to prevent unnecessary generation of such property, what can be done to increase utilization and to improve methods of disposition of such property, and what actually has been done to implement suggestions made by groups who have previously surveyed surplus property programs.

II. Background and Magnitude of Military Surplus Disposal Program

Disposal of property which is no longer needed to carry out its mission has long been a problem to the military organization. In the era of peace between World Wars I and II, as the size of the United States Army and Navy stabilized, the disposal of surplus property of the military was a rather routine operation of limited scope. During this period the comparatively slow rate of obsolescence of military

property resulted in a disposal program of little more than elimination of worn-out items of personal property.

At each military installation, a "salvage officer" was designated who became responsible for property disposal in addition to whatever other duties he might have. This assignment usually was one of the least desirable jobs on the station and consequently was staffed by a noncommissioned or junior officer. The responsibility of the job and the dollar volume of business handled by these "salvage officers" was, of course, trifling compared to present-day disposal operations.

World War II speedily and drastically changed the magnitude of the problem of surplus generated by the military. The volume and dollar value of surplus property generated per year skyrocketed; the impact of the management of such property and its disposal began to be felt worldwide even before World War II ended. The responsibilities of proper management of that vast problem became of such importance that Congress, taking notice thereof, enacted the Surplus Property Act of 1944, setting up the Surplus Property Board to administer the property disposition. The surplus Property Administration, the War Assets Corporation, and the War Assets Administration succeeded the Surplus Property Board, in that order, in administering this act. Under the administration of these agencies, the military department declared their surplus property to them for disposal.

Between 1944 and July 31, 1949, the above agencies disposed of over $18 billion worth of personal property and capital assets. On a 5-year basis, this averages over $3 billion worth of disposal per year.

In 1949, the Federal Property and Administrative Services Act (Public Law 152) was enacted by the Congress, and on July 31 of that year the General Services Administration, established by this act, was given the responsibility for administration of surplus property disposal.

General Services Administration promptly delegated authority to the Secretary of Defense to dispose of surplus property generated by the military services.

During the Korean conflict, disposals by the Military Establishment were largely limited to scrap and salvage-type property at an annual rate of approximately $500 million. New procurements continued to build up vast inventories within the military at rapid rates. In 1954, the volume of disposal of military property began to climb again. The figures furnished to the staff by DOD for 1954 and subsequent years are:

Dollar-value acquisition costs

Fiscal year:	
1954	[1] $2, 110, 400, 000
1955	[1] 2, 605, 400, 000
1956	[1] 2, 389, 600, 000
1957	4, 207, 000, 000
1958 (estimated)	6, 000, 000, 000

[1] Figures do not include foreign excess.

It has been estimated by competent authorities in DOD that approximately half of the $50–60 billion present inventory of the military will eventually be identified as excess property and will be processed out of the system as time allows.

Considering the present buying level of the military, together with the above-estimated backlog of excess, it can readily be perceived that

the future disposal problem of the military will be larger per year than the annual rate of disposal achieved even during the post-World War II years through 1949 when special agencies were set up to handle disposal.

The military is faced with the problem of disposing of at least $6 billion worth of property annually as long as the world situation demands that the United States maintain its present defense position. If such annual rate of disposal is not achieved, the additional cost of maintaining the ever-increasing nonusable inventory will become almost prohibitive.

III. Factors Causing Generation of Excess and Surplus Personal Property

Excess and surplus property as these terms are used throughout the military may be defined as follows:

Excess personal property: Personal property (as distinguished from real property) determined to be unnecessary to the requirements of the DOD.

Surplus personal property: Personal property which, through screening or other means, has been determined to be in excess to all Federal agency requirements.

While it is not practical to discuss all the factors which contribute to the generation of excess and surplus property, some of the more important ones are discussed below.

A. REQUIREMENTS

The technical aspects of the calculation of requirements are reported in some detail in the volume of this report which is devoted to "Requirements and supply." That report, however, does not consider requirements in relation to surplus as a separate subject.

The vast quantity of excess and surplus personal property in new and unused condition being disposed of annually ($1 billion acquisition cost) by the DOD is an indictment of its programs and procedures for determining requirements. Requirements must be complete, realistic, programed, and, for common-use items, coordinated among the services, after each service has examined and evaluated its own requirements in terms of its assigned mission. When these requirements are prepared individually, it is natural for each service to set them at its maximum anticipated needs without correlation with the requirements of the other services. Requirements in some cases are computed on the basis of past issues which bear no specific relationship to future needs because of changing factors, such as organizational strength of forces, new concepts, and technological changes.

The staff believes that requirements for additional common-use items should be determined on a unified basis rather than on a departmental basis. It is incumbent upon the DOD to more effectively review, reexamine, and reevaluate requirements for common-use items for all services collectively and to reduce them to the minimum consistent with attainment of the national security and preparedness objectives.

B. MULTIPLE LAYERS OF STOCK RETENTION LEVELS

In addition to the normal peacetime operating stock, DOD has provided other levels in which stocks may be retained. These levels provide considerable flexibility and opportunity for the transfer of stocks between levels with the inevitable stock hoarding. The various segregated retention levels also require the maintenance of additional records, preparation of additional reports, and inventorying at additional administrative expense. Consolidation to any degree of these retention levels should result in a further reduction of stock and a corresponding savings in related administrative expense. The different retention levels at present are:

1. Peacetime operating stocks: The quantity of materiel authorized or directed to be on hand at a distribution point in order to meet the replenishable demands of the units and activities based thereon for supply.

2. Mobilization reserves: Inventories of military supplies to draw against in time of war until production can meet requirements.

3. Long supply: The situation where the total quantity of an item of materiel on hand within a military service exceeds the service's M-day materiel requirement for the item. This situation, when it occurs, requires a further determination as to that portion of the quantity in long supply which is to be retained (either economic reserve stock or contingency reserve stock) and that portion of the quantity in long supply which is not to be retained (excess).

(*a*) Economic reserves: Military supplies held for future operating use because it is considered more economical to warehouse and maintain them for some period of years than to sell them and repurchase them at a later date.

(*b*) Contingency reserves: Military-type materiel, such as arms and ammunition, which is obsolete or nonstandard or for which there exists no foreseeable requirement, but which may be valuable in case of emergency or other possible need.

In addition to the above levels, another level called special project reserves was frequently encountered. Considerable materiel will be ordered from stocks for special projects far in advance of their need. In some cases years may elapse before the project is completed; in other cases the projects are diverted and the supplies are left to stagnate. This situation was found in a project at the Army's Fort Monmouth, N. J., research and development laboratories. No records were found which indicate the value or type of property being held in reserve for the project. It is estimated that some 30,000 to 35,000 items are involved with an inventory value as high as $150 million. A contract has been made with McLaughlin Research Association of New York to identify the property and assign appropriate Federal stock catalog numbers.

C. DEVELOPMENT OF REQUIREMENTS FOR SPARE PARTS

Huge quantities of excess and surplus spare parts were observed at most installations visited in the United States, Europe, and the Far East. Large volumes were particularly noted at ordnance and engineer depots. Depot commanding officers attributed the oversupply to

activities during World War II and the Korean war. They explained that during these periods there was insufficient time in which to do the necessary research to determine the longevity of spare parts for new vehicles or equipment and they were dependent to a large degree on the information furnished by the manufacturers. Quite naturally the manufacturers, being in business for profit, did not underestimate the needs. It is questionable that consideration was given to the mortality rate of vehicles and equipment in combat by the services—if considered, it could not have been realistic. In addition to the unrealistic spare-parts situation at the Mannheim Ordnance Depot, which is hereinafter commented upon, it was noted at the United States Army Engineer Supply Center, Sagami, Japan, that the value of its parts supply stock totaled $32.8 million of which $16.1 million worth or 49 percent had already been determined to be excess.

The staff concludes that spare parts for military vehicles and equipment, presumably procured for possible combat duty, have been procured on the false basis of repairing under normal peacetime operations and length of life. It is recommended that each new contract for vehicles and equipment require the contractor to furnish a minimum of spare parts, together with the end items, with a contract provision that he furnish additional spares as required within a specified period, such additional spares to be furnished at a specified cost as set forth in the original contract with allowances for price escalation based on labor and material indexes. This procedure may cause some increase in the cost of spares during the life of the contract, but considering the continual generation of multimillions of dollars' worth of surplus parts, the elimination of the cost of overprocurement, storage, transportation, handling, and disposal would result in considerable savings.

D. FAILURE TO COORDINATE DISPOSAL OF SPARE PARTS WITH RELATED END ITEMS

The relation of spares to end items is in imbalance throughout the services, and the staff could find no specific or coordinated effort to improve the situation. An example of the lack of relating spare parts to the end item is illustrated by World War II vehicles and their spare parts that are in the Army supply system. The Army is in the process of purging all World War II vehicles from its supply system and estimates that this will be accomplished by January 1, 1958. There are millions of dollars worth of spare parts for these vehicles, the disposition of which is not being coordinated with the disposition of the vehicles. For instance, at the Ordnance Depot, Mannheim, Germany, it was reported by depot officials that there was an inventory of approximately $96 million worth of World War II automotive spare parts but that only $50 million of this would be declared excess by January 1959, long after the vehicles are supposed to be out of the system.

Another field in which lack of coordination of spare parts and end-item information works to the detriment of the military and the Government is in effecting utilization within the military or other Government agencies. Even if an agency screens end items it can use, there is no established procedure by which it can readily obtain information on availability of spare parts required for maintenance and upkeep.

This information or lack thereof often means the difference between achievement of effective utilization or rejection of the end item by the seeking agency.

This same lack of information, of course, lowers the prices bid for surplus dealers when the end item becomes surplus and is put up for sale by the Government.

One of the major causes of the unavailability of such information is that the end item is under the cognizance of a military supply control point in one geographical area, while the spare parts are under the cognizance of another supply control point in a different geographical area. Two examples follow:

The Bureau of Ships, Washington, D. C., is the supply control point of the Navy for major shipboard machinery, equipment, and components, while ship assemblies and repair parts are controlled by Ship Parts Control Center, Mechanicsburg, Pa.

Major electronic equipment is under the control of the Bureau of Ships, Washington, D. C., while electronic assemblies and repair parts are under control of the Electronic Supply Office, Chicago, Ill.

Even though the geographical location of the supply control points for end items and spare parts may be different, the staff does not believe this present an insurmountable obstacle to coordinating the availability of spares with the end item when offered for utilization or disposal. Maximum utilization or increased sales returns will not be realized until such coordination is achieved.

E. OPERATING PROCEDURES

1. Overhaul and Repair Operations

Many cases were noted where funds were expended to recondition property, place it in the supply system, and later dispose of it as surplus. Two such cases noted were:

(1) Report of Excess Personal Property No. A–60–58–6–2543 of Engineer Supply Section, Sharpe General Depot, Lathrop, Calif., which covers gasoline engine generator sets valued at an acquisition cost of $252,276. Most of the units listed on this report are shown as being in condition code E 1 (used—reconditioned—excellent). The same code was shown on many of the other reports of excess examined. Inquiry disclosed that the repair and reconditioning were performed in 1953 and 1954.

(2) A review of excess declarations of Utah General Depot, Ogden, Utah, showed that considerable Corps of Engineers' property which had been reconditioned is now being declared excess. Report of Excess Personal Property No. A229–57–6–312 listed 120 generator sets valued at an acquisition cost of $178 520 which were reconditioned during the period of September 1953 to February 1955.

Huge amounts of such property are continuing to be reconditioned at considerable expense to the Government and stored at additional expense, only later to be disposed of as surplus.

2. Automatic Return System

The Air Force "automatic" system of returning excess base stocks to the cognizant depot also results, in many cases, in unnecessary property movement and in costly disposal delays. Under this system, when property becomes excess to the needs of any Air Force base (AFB) within an air materiel area that base so reports to its prime depot. The depot then theoretically instructs the base as to disposition of the property. However, if no instructions are received within 90 days, the base automatically ships the property back to the depot. This involves the high costs of packing, loading, and shipping. When received at the depot, further costs of unloading, unpacking, identifying, and classifying the property are incurred. A significant quantity of the property is immediately declared excess and eventually disposed of, resulting in the wasteful expenditure of funds for this nonproductive movement of property. Still worse is the fact that much of the property when received is classified as "reparable" and is repacked and rewarehoused at the depot for possible future repair. Ultimately, much of this is declared surplus. Other stock returned under this system is classified as "serviceable" and is put back into stock and, eventually, reshipped to another base. Under this practice, it is quite possible for "serviceable" property to be shipped from an AFB in New York to a depot in Alabama and shortly thereafter reshipped to an AFB in Pennsylvania.

The staff believes that the results sought to be attained by this "automatic" return system are being defeated by the failure of the depots to make timely and thorough evaluations of declarations from the bases regarding excesses in stock. Further, the "automatic" return system is not consistent with paragraph IV–E of DOD Directive 4140.1 dated October 12, 1956, which states:

> Inventory control points shall channel the flow of materiel into and through the military distribution systems in such a manner as to eliminate unnecessary crosshauling and backhauling, and minimize aggregate inventory holdings.

"Automatic" return permits crosshauling and backhauling and does not minimize aggregate inventory holdings.

3. Local Purchase Procedures

While procurement is covered in volume I of this report, the subject of local purchase procedures is mentioned here as it contributes materially to the excesses and surpluses observed at some of the installations visited. Military installations are authorized to make local purchases of certain listed items within specified dollar limitations. There is a high percentage of authorized items that cannot be procured in the vicinity or close proximity of many of the local purchase offices. A large percentage of the items procured falls within the category of nonreportable property when declared excess or surplus and therefore comes into and leaves the system as surplus property comparatively unnoticed.

During the staff's review, it was found that the concept of "local purchase" had changed completely from the original concept of "local procurement of those items in a specific geographical locale when it was determined that it was economically beneficial for the Government to do so" to a concept that "any item procured from any location as

long as the action is taken by the local office constitutes local purchase."

The staff found items being ordered for use in Okinawa by the Sacramento, Calif., local purchase office of the Air Force from as far away as Boston, Mass. The item was to be delivered to Oakland, Calif., for transshipment to the Far East; notwithstanding the fact that the Army has a well-staffed office at Yokohama to make local purchases in Japan, and the Air Force has a similar office in nearby Tokyo. The unwarranted cost of transactions of this type is self-evident. Another factor contributing to the lack of a sound local purchase program is the fact that many common-use items which normally should be purchased locally, in Japan for instance, had to be referred back to the "local purchase group" in the United States because the items were listed as having a military specification number. The need for having many of these common-use items meet military specifications is questionable and expensive.

In 1957, the local purchase group at SMAMA (Sacramento air materiel area), McClellan Air Force Base, Calif., procured $16,346,119 worth of merchandise for use primarily by SMAMA and the Air Force in the Far East.

The local purchase group at SMAMA at one time was not responsible for purchase of "local purchase" items for overseas activities inasmuch as this was handled by the Directorate of Procurement, 3103d USAF Logistical Control Group (Pacific) at Oakland (the port of embarkation). A study was made by the Air Force in 1955 and 1956 of the possibility of combining the local purchase functions of SMAMA and the 3103d, and this was subsequently done with the 3103d local purchase function at Oakland being moved to Sacramento. The move was so complete that the staff found the Sacramento people writing purchase requests for $3.50 to repair a typewriter in the Air Procurement District (APD) Office in Oakland. Upon questioning, the Director of Procurement at SMAMA asserted that this was necessary under the system. If a typewriter in the APD office at Oakland needed repair, APD would notify SMAMA in Sacramento, and they would issue an order against the GSA contract for its repair. With the purchase tools at hand, such as impressed cash funds, purchase order invoice voucher, standard form 44a, etc., there is absolutely no excuse for such time-and money-consuming practices by any governmental organization.

In view of the examples given above, and many others observed, the staff believes that "local purchase" has gone far beyond anything that was ever contemplated by its originators and is contributing materially to excess and surplus property generation. Much more in the way of efficiency and economy could be accomplished by the Office of the Secretary of Defense coordinating local purchases throughout the Services, establishing specific criteria and guidelines, and making the function an interservice operation rather than an intraservice one. A good place for such improvement is shown by the analysis of the role of the single manager (medical) in local purchase activity which is commented on in volume II of this report.

4. Inventory Policy and Procedures Affecting Surplus Generation

The details of inventory matters are covered in the supply portion of this report. Comments here are limited to general observations of

practices that contributed to the generation of excess and surplus. It was noted that some installations took annual inventories; others took them less frequently. The type of inventories varied between the perpetual inventory and the shutdown inventory.

The perpetual inventory is a continuous inventorying operation performed by personnel hired for the specific job on the basis of ability and experience. Because of assignment solely to this activity, their knowledge and experience is enhanced with time.

Shutdown inventory is the type where the installation is closed as to issues, other than those of an emergent nature, for periods of 1 to 3 weeks for taking inventory. The personnel used to take the inventory are detailed from various organizational units of the depot. The cost of the inventory is higher when taken with inexperienced personnel, and the accuracy is lower.

Rossford Ordnance Depot, Toledo, Ohio, was one of the installations visited that used the shutdown type of inventory. The depot was visited in June 1957. The last inventory was taken in April 1956. Of 212,792 line items counted, 52,010 adjustments were made between inventory count and card balances, or itemwise approximately 24 percent. Instead of showing the adjustments in this manner, however, they are shown only as monetary adjustments of 00 Form 1712 Report of Inventory. The percentage of dollar adjustment as reported in the above case was less than 1 percent. This percentage of adjustment is misleading, as 1 high-cost item over could offset 50 low-cost items short.

It is the staff's view that the perpetual inventory is the more accurate and economical method of inventorying and will ultimately contribute less to the generation of excess and surplus than the shutdown inventory.

F. OTHER FACTORS

1. Standardization of Designs and Specifications

Standardization can materially reduce generation of surplus as shown by the fact that, under the current military standardization program, the military departments have been able to reduce antifriction airframe roller bearings from 440 to 47 types and sizes.

Also, a survey by the military departments of 94 different classes of hand tools indicates a possible reduction from 12,300 items to approximately 5,000 standard items.

There have been various changes in items of uniform throughout the services which have contributed to generation of surplus, such as changes in color or style of shoes, socks, blouses, trousers, and raincoats and adoption of the three-piece back in the Marine Corps uniform instead of a four-piece back. This type of change has contributed liberally to the volumes of excesses and surpluses. From an appearance or standardization viewpoint these changes may be desirable, but from a planning, efficient, and economic viewpoint the staff does question the timing. Examples of two such changes found at Navy Clothing and Textile Office, New York City, resulted in items being declared excess are:

(*a*) Cloth, wool melton 22 ounces, 140,817 yards, acquisition cost $663,834. This material was used in the manufacture of women's overcoats. The women's overcoat was later removed

from the minimum outfit for enlisted women and the material was excessed out of the system.

(*b*) Another item declared excess at the same installation was raincoats, men's, black, enlisted men, 66,057 at an acquisition cost of $769,564. The reason given for declaring the raincoats excess was that the items had been deleted from the list of authorized uniform to be replaced by items of a different color.

2. Item Substitution

Item substitution is a fertile field for reducing the generation of excess and surplus property. Substantial utilization can be obtained by the substitution of like or similar items in lieu of procuring new ones. The biggest deterrent to utilization by this means is the diverse reimbursement requirements now in effect. For instance, if an Army Technical Service can substitute an item in stock or excess from another Technical Service in lieu of one specified for procurement, it must reimburse the stock fund at the rate of 100 percent of acquisition cost. If the Navy can utilize the item, it must only reimburse the Army 50 percent; if the same item becomes surplus and is claimed by the Department of Health, Education, and Welfare program or Service Educational Activities, the stock fund receives no reimbursement.

The wastefulness of these inconsistent reimbursement requirements was graphically illustrated to the staff in reviewing the present "roll-up" program plans in Japan. Large quantities of barbed wire and sand bags were noted there which were needed in Korea; however, as consumer funds were not available in Korea to reimburse the stock fund, the items will remain in Japan and deteriorate. When funds become available in Korea, new procurements will undoubtedly be made. Design and restrictive military specifications also often prohibit the substitution and utilization of items that are excess, or that will become excess. For example, a requisition may specify 1½ inch bolts when perhaps 1¼ inch or 1¾ inch bolts would serve the purpose, but the supply personnel does not have the tolerance information or authority to intelligently substitute items. Leeway, when permissible, if stated on the requisition would greatly help to increase utilization by substitution.

3. Equipment With Short Shelf Life

Photographic film and paper are examples of property with short shelf life which contributes to excesses and surpluses. Excesses and surpluses of these items were noted at numerous installation and were declared excess and surplus due to expiration dates of the material. A specific example noted at the Griffis Air Force Base, Rome, N. Y., showed that in fiscal year 1957 surplus film and paper with an acquisition cost of $1,075,620 was disposed of. An excess of $538,743 was on hand as of July 1, 1957, and a surplus balance of $541,250. This was against a purchase of about $14 million, or approximately 14 percent of the total.

Tires are another example of a short-shelf-life item. Excesses and surpluses were noted at practically every installation visited. The chief deficiency noted was that tires were not clearly labeled or otherwise easily identified as to age. This was particularly true at the Naval Construction Battalion Center, Port Hueneme, Calif. This staff also checked two shipments of tires being made at the Army

General Depot, New Cumberland, Pa. The check revealed that tires of a newer date were being shipped rather than the older tires in stock. There were also between 500 and 600 passenger-car tires, 600 x 16, 6-ply rayon, in storage in the ordnance warehouse which were not marked or labeled as to the year made. At most camps, posts, and stations, this type of tire is a local purchase item.

The staff does not question the advisability of placing short-shelf-life items on the local purchase list, but they should not be placed on the list until present depot stocks of these items have been depleted. Further, it is suggested that immediate steps be taken to properly mark and label short-shelf-life items so as to secure greatest utilization based on age.

Consideration should be given to having the manufacturer carry and rotate a depot stockage for short-shelf-life items such as photographic film and paper.

IV. Utilization of Excess Property Within the Military

A. Methods and Extent

1. Reportable Property

Since the military should be its own best customer in utilizing excess property, a central DOD screening agency has been established to effect the screening of excess personal property under control of the DOD. This agency is the Material Redistribution Division (MRD) and is administratively attached to the Bureau of Supplies and Accounts, Department of the Navy. Its purpose is to disseminate to all appropriate DOD activities information concerning available excess property reported to it by the military services and Federal agencies. Its objectives are to obtain maximum utilization of currently available DOD property, to prevent uneconomical disposal of usable available assets, and to eliminate "concurrent buying and selling" of property to the fullest possible extent.

To illustrate the scope of the DOD excess and surplus personal property operations, information from the DOD consolidated reports of excess and surplus personal property, covering the worldwide generation, utilization, and disposal of such DOD property for the 1957 fiscal year follows:

Fiscal year 1957:		*Acquisition cost*
Total on hand July 1, 1956		$1,564,925,000
Generated during year:		
"Reportable" to MRD	$1,945,271,000	
"Nonreportable"	3,080,443,000	
		5,025,714,000
Total		6,590,639,000
Disposition:		
Redistributed within DOD		129,762,000
Reduced to scrap		2,169,835,000
Usable and salvage sales		1,367,619,000
Transferred to other Federal agencies		539,905,000
Total		4,207,121,000
On hand June 30, 1957		2,383,518,000

The coordinated MRD concept of disseminating information on the availability of usable DOD excess property for screening by DOD

activities appears to be a logical approach to accomplishing the desired objective of maximum utilization of excess.

However, during fiscal year 1957, only about $80 million of the $1.9 billion of the reportable excess screened through MRD, or 4.1 percent, was utilized within DOD. This low utilization of what, basically, should be the cream of the total excess generated raises doubts as to the effectiveness of the MRD operation as constituted and the sincerity of the various DOD activities in utilizing available excess property in fulfilling known or anticipated needs.

It is the opinion of the staff, based on review of specific data and as a result of field inspections, that a considerable portion of the military excess property is of such types and condition that it has a definite further utilization potential within DOD.

Various reasons have been and will continue to be advanced by the different responsible or interested echelons and activities as to why specific excess items are not utilized in lieu of new procurements of the same or similar items. Some of these reasons do not appear to be sufficiently valid or factual to be convincing, especially in the light of oft-repeated assertions on the part of responsible DOD civilian and military personnel that everything possible is being done to effect economies and thus reduce expenditures.

A few specific examples of failure to utilize "reportable" excess property based on what definitely appears to be weak or inadequate justifications or administrative decisions follow:

(*a*) On January 10, 1957, Air Material Command (AMC), Wright-Patterson Air Force Base, initiated procurement of from 65 to 80 diesel-engine-driven electrical generator sets.

On January 24, 1957, the MRD, through the Department of the Navy, called attention of the AMC to the availability of 62 excess unused generator sets reported to MRD by the Engineer supply section, Utah General Depot, Ogden, Utah. The MRD letter requested that the acceptability of the excess generators to fulfill the requirement of the above-mentioned procurement action, either "as is" or by modification of the excess equipment to meet the desired power requirements, be determined. The letter requested also that detailed reasons for nonacceptance be furnished in the event the generators were not acceptable.

It was finally decided the excess PE–85–M generators could not be used in lieu of the type MB–2 generators. The only reason given is set forth in a communication to MRD dated April 16, 1957, from Headquarters, Sacramento Air Materiel Area, McClellan Air Force Base, Calif., quoted as follows:

> Maintenance technicians at this depot have reviewed Technical Manual 11-916M and have determined that the PE–85–M power unit is not a suitable substitute for the MB–2 generator. This decision was based on the fact that the output voltages of the MB–2 include 120 and 208 volts and the output of the PE–85–M is 230 volts only.

It may be reasonably assumed from this statement that the unsuitability of the excess PE–85–M generators as substitutes for the MB–2 type was due to voltage requirements. There is no indication whether consideration was given to the practicability of modifying the excess units to correct the voltage deficiency, possibly by the installation of transformers, to meet the Air Force requirements.

The low bid received by the Air Force on the new MB–2 generators was $4,510.24 each including preservation and packing. The use of the 62 excess generators in lieu of new generators would have resulted in a savings to the Government of about $275,000 less the cost of the modifications.

(*b*) On May 10, 1957, action was instituted by the Chicago procurement office, Corps of Engineers, United States Army, for the procurement of from 285 to 502 gasoline-engine-driven electrical generator sets.

On March 5, 1957, the Engineer Supply Section, Belle Mead General Depot, United States Army, Somerville, N. J., had reported to MRD 298 excess generator sets on excess report No. A-1291-57-1-138. These excess generator sets were described in N–2 (new-good) condition and represented a total acquisition cost of $929,760, or $3,120 each.

On June 3, 1957, the MRD called the attention of the commanding officer, Corps of Engineers, United States Army, procurement office, 226 West Jackson Boulevard, Chicago, Ill., to the availability of the above excess generator sets in the interest of obtaining maximum utilization of excess property. The MRD communication requested that the acceptability of the excess generators to fulfill the requirement of the procurement invitation, through possible modification of the equipment to meet desired power factors, be determined and requested that detailed reasons for nonacceptance be furnished in the event the generators were not acceptable. The Office of the Chief of Engineers, United States Army, engineer supply control office, St. Louis, Mo., replied to this request as follows:

> Reference is made to basic communication and speed letter, SR2.10, July 1, 1957. Generators listed in enclosures to this communication cannot be used by the Corps of Engineers and are being disposed of by the Army due to age. Adequate spare parts support cannot be furnished and maintenance and repair is not economical.

The reasons given for nonacceptance based on age, spare parts support, etc., appear to be superficial. Even though the units were a few years old, they were in N–2 (new or unused-good) condition, which means their utility was unimpaired and they were not damaged or deteriorated. As to spare parts support, it can be assumed that adequate spare parts and other maintenance items to support the generators in use were procured at the same time as the end items and were still somewhere in the supply system and available for issue as needed. In the event, however, that normal spare parts support for the excess generators could not otherwise be provided, some of the units could have been reserved to provide the necessary spare parts support for the units placed in operation.

Thus, if only half (149) of the 298 excess units were placed in operation, with the other half set aside for use as spare parts support, the new procurement could have been reduced accordingly. Since the contract for the new generators was awarded at a price of $1,656 each, the potential savings to the Government through the utilization of the excess units could be assumed to be in excess of $250,000, since spare parts undoubtedly have been or will be procured to support the new equipment. While this potential saving may seem minor or inconsequential to the Army, it is substantial from a taxpayer's viewpoint.

(*c*) In Excess Report No. N-1906-56-407, dated May 22, 1956, the Navy reported as excess to its needs various types and quantities of woolen, cotton, and rayon cloth, in new and unused (N–1) condition, originally purchased by the Navy for the manufacture of clothing. The total acquisition cost of this excess cloth was reported as $4,694,212.70.

Two of the line items of the above-mentioned cloth, with brief descriptions, quantity declared excess, and unit and total acquisition costs are as follows:

Item 1: Cloth, wool, flannel, OD No. 7, 12 ounce, 1,076,356 yards at $3.45	$3,713,428.20
Item 9: Cloth, wool, flannel, OD No. 7, 14 ounce, 167,543 yards at $3.75	628,286.25

In response to a request for the reasons for determining these two items of wool flannel cloth, costing over $4 million, to be excess to the needs of the Navy, the following reply was received:

> These items are used in the manufacture of olive drab flannel shirts, N–1 winter overalls, and N–1 winter helmets. This material was last procured in February 1951, when 735,000 yards were purchased. This procurement was initiated to cover mobilization stock buildup at the beginning of the Korean war. Technological advances in the field of environmental clothing have made this cloth obsolescent for use in winter overalls and winter helments. Future procurements are in terms of material providing a much greater degree of warmth. * * *

The fact that "technological advances" had been made "in the field of environmental clothing" does not appear to warrant discarding this cloth. Surely the Navy operates in areas which require some protection from cold but which do not require the ultimate in cold-weather clothing. Nevertheless, none of the excess cloth was utilized within DOD, and only a very small quantity costing $13,186 was transferred for use by civilian agencies. The rest, which cost the Government $4,681,000, was determined to be surplus to the needs of the Government.

(*d*) The Navy in July and October 1956 reported as excess to its needs (Excess Reports N-29-56 and N-1-57) over 5 million pairs of socks, described with quantity and acquisition cost as follows:

Socks, men's wool, natural, condition N–1, 5,396,273 pairs at 40 cents per pair	$2,558,509.20

The Navy explanation for excessing these socks follows:

> The above items were deleted from the list of authorized uniform items for enlisted men after procurement. The material was purchased in February and March 1952. The possibility of dying these socks black, the only color authorized for wear, proved impracticable. Continued sale to enlisted personnel was impracticable in that enlisted personnel were not authorized to wear other than black socks with the naval uniform.

Even though these light-colored socks may not be an "authorized uniform item," there are obviously many military assignments which would permit the wearing of socks like those reported as excess without affecting the individual efficiency or military bearing or the general esprit de corps of the particular service. By delaying the introduction date of the new color, the quantity of socks declared surplus could have been reduced to a minimum; failing this step, relaxation of uniform regulations to permit the light-colored socks to be worn on work details or similar duty would have helped reduce the surplus.

2. NONREPORTABLE PROPERTY

During the past 4 fiscal years (1954–57), the volume of the nonreportable excess property, at acquisition cost, generated within DOD has been at least twice as great as the reportable excess generated.

Nonreportable excess property does not receive screening through MRD. The pertinent regulations of the military services permit local screening of nonreportable excess property in those cases where the responsible disposal official considers that sufficient utilization of the particular property will result in making the operation practicable and economical. Local screening, where it is done at all, is usually accomplished through the distribution of listings of available items to other military activities within a radius of 50 to 100 miles of the activity where the excess property is located. The screening period is usually limited to 10 days.

Local screening of nonreportable excess property is not mandatory. Some of the disposal activities visited by the staff screened their excess locally by one method or another. The larger ones usually distribute screening lists periodically to local military activities and, in some cases, to local civilian agencies as well. Instances were also noted where some disposal activities followed a practice of displaying common-use or commercial-type excess items, such as hardware, paint, electrical and plumbing fixtures, lumber, etc., and permitting authorized representatives of needing activities to shop around select desired items, and complete their transfer on the spot with a minimum of paperwork. This practice, somewhat similar to the "country store" or "self service" methods of dispensing supplies, appeared to be quite successful in achieving increased local utilization of excess.

This local voluntary effort, during the 1957 fiscal year, resulted in the redistribution or transfer between DOD activities for further utilization of nonreportable excess property with an investment or acquisition value of about $50 million or about 1.6 percent of the total inventory value ($3 billion) of all of the nonreportable excess generated.

Several factors which have a definite effect on the utilization of nonreportable excess within DOD were noted by the staff at field installations visited. Some of these were:

(*a*) Frequency of issuance and distribution of local screening lists.

(*b*) Accuracy of description and condition of listed items.

(*c*) Use of the "country store" idea.

(*d*) Type and size of other military installations within local screening area and proximity to each other.

(*e*) Amount of paperwork required to effect transfers.

(*f*) Personal interest of disposal and using personnel in effecting utilization of excess.

It was apparent to staff members that, where the disposal officers or supervisors made conscientious efforts to use the above devices, much greater local utilization was achieved than at similar installations visited where only superficial attention, or none at all, was given to this important area of responsibility.

The obvious conclusion, therefore, is that it should be made mandatory, rather than permissive, for all disposal activities to promote and facilitate the utilization of nonreportable usable excess to the

fullest practicable extent through established procedures and guidelines that are uniform for all military services. The interservice supply support program does not achieve this objective.

B. OBSTACLES TO UTILIZATION

1. Reimbursement Requirements for Excess Stock Fund Property

The requirements surrounding reimbursement for stock fund property constitute 1 of 2 major obstacles to utilization of DOD excess by its own activities.

DOD directive 7420.1, subject: Regulations Governing Stock Fund Operations, dated December 19, 1956, prescribes the general DOD policy and guidelines governing the transfer or sale of excess stock fund property. It provides under paragraph A of section XII that

> * * * As a general rule transfers or sales of stock fund materiel excess to the needs of the Department of Defense or any agency thereof shall be made to other agencies of the Government on a reimbursable basis pursuant to the fair value code as published in GSA regulations and as implemented by Department of Defense directives. This general reimbursement rule is not applicable to property of stock funds in excess of the mobilization reserve of such equipment. * * * Moreover, * * *, no charge should be made in any case where the transfer does not exceed $500 at standard price per requisition line item. * * *

The DOD directive does not specifically spell out the reimbursement criteria on transfers of stock fund excess between services, such as Army to Navy, or between activities or bureaus of the same military service, such as Quartermaster to Ordnance in the Army or Bureau of Supplies and Accounts (disposal division) to Bureau of Aeronautics in the Navy. Generally, interservice transfers of stock fund excesses are made at fair value. Intraservice transfers, however, are a different matter. For example, Army regulations No. 37–61 (effective July 1, 1956) under 4 n (2), states, in part, as follows:

> Stock fund property which has been declared excess * * * will not be furnished to activities or individuals of the Army as a free issue or at prices less than established standard prices to meet supply requirements. In all instances where such property is to be issued to meet either a recurring or nonrecurring use requirement, * * * the issue will be accomplished as a routine reimbursable sale in accordance with prescribed standard pricing policies.

Navy property redistribution and disposal regulation No. 1, under paragraph 418, entitled "Materials Financed by Working Capital Funds," states, in part, as follows:

> Excess or surplus material, financed by working capital funds (e. g., Navy Stock Account Material), will be reported and disposed of in accordance with the provisions of this regulation and paragraph 418. It is the policy of the Navy Department that such property shall be disposed of in a manner which will assure the maximum reimbursement to the preservation of working capital funds.
>
> * * * Reportable items of bureau excess will be screened by MRD for utilization within the Navy (not for stocking purposes) at fair value * * *, and in the absence of requests for such material at fair value, will subsequently screen for utilization by the other military departments on a reimbursable basis * * *. Items which are nonreportable * * * will be offered within the Navy, to the Departments of Army and Air Force and to other Federal agencies, at fair value * * *.

Air Force regulation No. 177–25 entitled "Accounting, Air Force Stock Fund" does not further implement DOD directive 7420.1 with regard to the transfer or sale of excess stock fund property.

It will be noted from the foregoing that the Army and Navy do not operate under the same rules in regard to the transfer of excess stock fund property between their own activities. The Army requirement that a requisitioning activity must pay established standard prices for Army stock fund excess when, theoretically at least, it would be possible for the Army requisitioning activity to obtain the same or similar items declared excess by the Navy or Air Force at fair value (50 percent or less of acquisition cost) by interservice transfer is, from a practical standpoint, a decided obstacle to maximum utilization of its own property.

The general requirement that stock fund property must be paid for by another DOD activity either at full standard price or fair value does not promote maximum utilization of such excess property. This is especially true in the case of items that have become shelf worn or are out of date or nonstandard due to technical changes or advances occurring since the excess items were procured, even though such excess items may be fully utilitarian and suitable for the purpose.

It is a basic characteristic of Americans to resist efforts to force them to spend their money for an outdated model when a newer model is available unless the older model is offered at a bargain price too attractive to resist.

It is, therefore, the opinion of the staff that a revision of present DOD and military service policies and regulations to provide for a uniform and realistic method of effecting the transfer and redistribution of stock fund excess property among its activities at a greatly reduced charge (i. e., 10 percent of acquisition cost) would definitely achieve utilization of an appreciable amount of such property now being disposed of as surplus.

2. Lack of Knowledge of Available Excess

To achieve the desired objective of maximum utilization of excess property, all elements of an organization or activity in any way responsible for or concerned with the planning of operations or requirements, acquisition, issue, or use of property should have current and accurate information of the availability of excess items suitable for fulfilling existing and foreseeable needs.

Procurement officers and inventory managers and their staffs, generally, receive excess availability information through MRD or other sources. These employees presumably screen such listings against pending purchase requisitions or other firm and known requirements for specific items. Thus, in those cases where excess items come to the attention of the proper procurement officer or inventory manager during the exact time purchases or requisitions of identical items are being processed, the excess items may be utilized in lieu of new procurement. However, there are two major deterrents to achieving more utilization at this point. One is the fact that the operating level, the people who are doing much of the requisitioning and are actually going to utilize the requisitioned property, seldom, if ever, see the current and complete listings of available property. If these people did see such lists, they would be more inclined to tailor their requests to suitable items that might be available from excess. The other deterrent is a direct result of the first; not knowing what may

be available, the user requisitions the property he needs by a catalog number or a military specification number and this forces the procurement officer to purchase that particular item with very little, if any, opportunity to substitute available property which might be entirely suitable for the intended purpose.

Basically, the material and equipment requirements for specific operations and programs originate in, and are prescribed by, the planning, technical, and operating levels. Accordingly, an excellent opportunity exists at these levels for the utilization of excess, in lieu of new procurement, in "provisioning" for such operations and programs, especially with regard to items which are not regularly stocked in the supply systems. Also, the possession of current and complete information on available excess by the technical and operating people would undoubtedly foster upgrading of equipment by the replacement of nearly worn out or outdated items with similar newer and more efficient types that are available from excess.

V. Disposal of Surplus Property

A. MULTIPLE POLICIES ON PROPERTY DISPOSAL

1. DOD Policy

The DOD published policy requires that property being released as excess must fulfill the requirements of one or more of the following standards:

(*a*) Property is not required to meet current operating needs and approved programs of DOD.

(*b*) Property has been determined obsolescent or obsolete and its continued use would have an adverse effect on military operations.

(*c*) Property is unserviceable and is beyond economical repair for continued use within DOD.

(*d*) Property is scrap or waste and cannot be used within DOD.

(*e*) Property in stock which would deteriorate and completely lose its value to the DOD if further retained.

In addition to the foregoing, DOD directive 4140.1 contains numerous references to the need for following sound property management principles with considerable emphasis on the importance of giving full attention to factors that cause excesses.

DOD's published policy on the subjects of excess property and inventory management clearly directs the military services to pursue aggressive property utilization and disposal programs. It imposes an irrefutable responsibility on the services to institute and carry out responsive programs to achieve the intent and purposes of the policy.

From observations made in the course of field visits, the staff concludes either that the intent of the DOD policy has been obscured in the multiple regulations interpreting the policy or that the regulations have not been disseminated and implemented at the operating levels. This conclusion is based on the wide variance between actions at command levels and DOD policy statements. As the regulations apparently are not correlated by the services or DOD, considerable difference exists in instructions and procedures issued. The situation

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results in considerable confusion to surplus property buyers as one procedure may be followed if it is Air Force property, another for the Army, and still another for the Navy. DOD should pursue an active review program for policy compliance in order to isolate and correct situations where deviations exist.

2. Army Policy

The Army's policy on property utilization and disposal generally conforms to that prescribed by DOD. However, its procedures for handling excess property differ from the Navy's and those of the Air Force in that accountability and screening is the responsibility of each of the seven technical services. Navy and Air Force disposal units handle excess as well as surplus property while Army disposal units get jurisdiction over property only after it becomes surplus. Army disposal units are manned predominantly by QM Corps personnel. It is believed that a better overall job would result if the disposal personnel and disposal activities were disassociated from any one technical service and made a part of the Supply and Logistics Division. The Army's system of having excess property handled by seven technical services should be given a critical analysis with due consideration for the merits and advantages that may accrue to the Army through the adoption of the system used by the Navy and Air Force.

3. Navy Policy

The stated policy of the Department of the Navy (including the Marine Corps) calls for optimum utilization of excess property, regardless of source, in the interest of conservation and economy and with the objective of reducing the amount of new procurement from sources outside the DOD. The DOD standards for excess property are prescribed for use by the Navy. It is felt that the full implementation of the Navy's policy has been restrained somewhat in the reluctance to use negotiated and retail sales for disposition of surplus property under circumstances favorable to such sales. Navy Property Redistribution and Disposal Regulation No. 1 is silent on the subject of retail sales. The Bureau of Supplies and Accounts Manual, volume II, chapter 6, limits negotiated retail sales to kindling wood, bottles, boxes, crates, oils, and other materials where the estimated recovery value is $500 or less and then only at Bureau of Supplies and Accounts approved prices. While it is acknowledged that authority for negotiated and retail sales should be controlled, it is felt that this form of sale could be more effectively utilized by naval disposal officers through promulgation of appropriately broadened regulations.

4. Air Force Policy

The Air Force policy is designed to insure maximum conservation and utilization of Government-owned personal property by:

(*a*) Continuously surveying inventories to prevent accumulation of property which exceeds minimum requirements.

(*b*) Developing detailed conservation programs to prevent loss of waste of property.

(*c*) Making excess quantities of property in Air Force custody available to authorized agencies.

(*d*) Obtaining from other activities within DOD, and other agencies, property no longer required by those agencies which may be utilized by the Air Force.

(*e*) Effecting prompt disposal of property no longer required for use in the Federal Government in accordance with applicable laws in the best interest of the Government.

The Air Force policy statement appears to be in consonance with DOD policy.

The Air Force, in auction and sealed bid sales, generally follows the practice of having the procurement contracting officer act as the sales contracting officer for the purpose of signing the contract with the purchaser. This procedure requires that an additional person become familiar with the facts, delays signing the contract, requires the purchaser to do business with additional people, and in general is a paper-shuffling operation. At one large Air Force installation visited by the staff, it was admitted that the entire sales operation including the signing of the contract could be adequately handled by the sales contracting officer.

While fully cognizant of some similarities in contracts for sales and purchases, the staff believes that the essential features of a sales contract are specialized to the extent that the surplus sales contracting officer activity should be disassociated from procurement and be made a part of the disposal organization's responsibilities. This has already been done at a few Air Force installations and is in effect throughout Army and Navy installations. It should be made mandatory for the Air Force.

The Air Force uses the services of the USAF National Bidders Control Center Service, and prospective bidders need contact only this center to be placed on mailing lists to receive invitation for bids (IFB's) for Air Force sales. To receive IFB's for Army and Navy sales, it is necessary for the prospective bidder to contact approximately 300 installations.

5. Policy Covering Disposal Abroad

Foreign excess disposed of abroad in fiscal year 1957 amounted to less than $630 million. Programs for the disposal of excess property located in foreign countries must conform to the United States foreign policy. To help accomplish this, overseas base commanders maintain liaison with appropriate United States diplomatic representatives and consular offices informing them of forthcoming disposals.

Many foreign excess property disposal programs are subject to restraints imposed by foreign governments as terms or conditions in the foreign country sales agreements. For example, Japanese restrictions require the United States vehicles and spare parts therefor be reduced to scrap unless the buyer intends to export. It is obvious that compliance with such requirements results in smaller monetary returns than would otherwise be obtained.

The United States-United Kingdom country sales agreement imposes, among other things, an unrealistic monetary limitation on United States surplus property sales proceeds (approximately $142,500 per year) with further limitations on sales of specific classes of property. These limitations, under current circumstances, are definitely

restricting disposal and causing huge surplus property buildups. The adoption by the United Kingdom of a new concept in defense has resulted in the return to the United States Forces of much lend-lease equipment and in notice of intent to return further large quantities of material, such as track-laying and wheeled vehicles, engineer equipment, and supporting spare parts. The staff observed that this equipment (10 to 12 years old) is placed directly in the disposal yard adding to the already large backlog of surplus. The United States-United Kingdom country sales agreement is in need of modification in the light of present conditions if an effective disposal operation is to be achieved.

Sales of surplus property in France and Morocco are subject to the provisions of the respective country which, although silent on monetary limitations, impose other restrictive conditions. Some of these are:

(*a*) Burdensome exporting regulations.

(*b*) Imposition of customs duties and taxes.

(*c*) Review and approval or disapproval of proposed United States sales by established French Government sales organizations.

(*d*) Limitation of sales points and locations within the countries.

(*e*) Designating sales agency to actually consummate sales for the United States.

(*f*) Indirectly charging the United States Government 5 percent commission, plus handling charges for sales services rendered.

The effect on sales of provisions of country agreements should be constantly under review at appropriate command levels so that disposal programs overseas are not unnecessarily stifled. To accomplish this the commands should designate a representative familiar with the disposal problems to act as a continuing liaison with Department of State representatives.

Proposed overseas sales involving property having a total original acquisition cost of $250,000, or more, must be reported to the United States diplomatic representative or consular offices in the country or countries concerned prior to sale. This is done to afford opportunities for consideration of possible foreign policy aspects. Sales in excess of $50,000 acquisition cost, but less than $250,000 are reported to the diplomatic or consular office after completion of the sale.

The staff found no instance where the Department of State objected to any proposed sale, but the necessity for obtaining approval interferes with the prompt disposal of surplus. The Department of State is presently considering the possibility of requiring that approval be obtained only for proposed sales of property having an acquisition cost of $1 million or more and has temporarily authorized sales of United States property in Japan on that basis. Similar action on a worldwide basis is desirable.

The Department of State clearance function is not handled uniformly by the services. The Navy and Air Force deal directly with Department of State officials in the local embassies, whereas the Army handles the clearance through its Washington, D. C., headquarters. The Army system causes undue delay with no noticeable evidence of advantage. The staff feels that the Army should give serious con-

sideration to the adoption of the more expeditious procedure used by the Navy and Air Force.

Department of Commerce policy requires that all notices of sale and sales contracts covering foreign excess property include the following provision:

> The property sold hereunder may not be imported into the United States of America, unless the Secretary of Agriculture (in the case of an agricultural commodity, food, or cotton or woolen goods), or the Secretary of Commerce (in the case of any other property) has determined that the importation of such property would relieve domestic shortages or otherwise be beneficial to the economy of the United States, and this sale is made expressly subject to this condition.

The agricultural restriction poses little problem as such commodities are rarely sold with the object of exportation to the United States. It was reported to the staff in Morocco that Department of Commerce authority has been somewhat difficult to obtain in time to be usable. The extent of the delay and the resultant adverse effect on sales was not ascertained, but the military should look into this possible deterrent to expeditious disposal and take such action as appears necessary.

6. Administrative Deficiencies

GSA, under the Surplus Property and Administrative Services Act of 1949, Public Law 152, as amended, is charged with the responsibility of providing—

> * * * for the Government an economical and efficient system for * * * the utilization of available property and the disposal of surplus property * * *.

As previously mentioned, the Administrator of General Services Administration has authorized the DOD to operate its own property disposal operation with GSA assisting in the handling of property transactions involving nonmilitary Government agencies.

The GSA sales-assistance program made available to the military in 1956 as a result of congressional hearings on surplus-property management has been of questionable value. The GSA regional sales specialists have failed to introduce new merchandising methods and sales techniques to the extent envisioned by the program. The operation needs to be reevaluated in the light of past experience. A careful study of Public Law 152, the resultant limited delegations of authority, and the implementing regulations of both GSA and the military offer a fertile field in which GSA can effect valuable assistance.

GSA has assumed leadership in a project to revise the sales forms (Standard Form 114), particularly the terms and conditions giving the contracting officer the authority to grant relief in certain cases of buyers' complaints. Comments on proposed changes were submitted by all Federal agencies almost 1 year ago. The staff feels that the revision of the sales form as proposed will increase the revenue from sales because the buyer, knowing he has an opportunity to obtain an adjustment covering any erroneous description, will be willing to bid a higher price.

A draft of revised Standard Form 114 was approved by DOD and has been submitted to the Bureau of the Budget. It should be released at the earliest possible moment because it will alleviate to some

degree the complaints from bidders regarding the "as is" and "where is" clause.

Contractual-clause safeguards to protect the interests of the Government have become so numerous that some prospective bidders are reluctant to bid on surplus sales. The "as is" and "where is" clause, which is a part of all sales contracts, virtually precludes recourse against the Government. This has resulted in such situations as boxes of sharpening stones labeled as containing 144 when actually they contained 96 being sold to unwary buyers who expected the labeling to be accurate. In this case a plea for relief was unsuccessful. The 16 general sale terms and conditions that are a part of every sealed-bid sales offering are usually supplemented by additional terms, conditions, and instructions, so that in some catalogs as many as 10 pages are thus used before property to be sold is listed. Such a formidable prolog is not conducive to bidder participation, and the military services might well direct attention to eliminating all unessential material from bid invitations.

Under section 207 of the Federal Property and Administrative Services Act of 1949 (Public Law 1952), individual sales of property acquired by the Government at a cost of $1 million or more, or of property consisting of patents, processes, techniques, or inventions, irrespective of cost, must have prior approval of the Attorney General of the United States. This is done so that a determination may be made as to whether or not such a sale would tend to create a situation inconsistent with antitrust laws.

On August 7, 1957, a bill, H. R. 9169, was introduced in the House calling for the amendment of section 207 of Public Law 152 to exempt scrap and salvage sales from the provisions of the act and to increase the monetary submission requirement from $1 million to $3 million. On the majority of sales, the latter provision would eliminate the delay of 60 or more days which is attendant upon each proposed sale requiring approval by the Attorney General. It would also obviate the practice resorted to by some disposal officers who keep the size of sales offerings under the present clearance requirement limit so as to avoid the delay and effort occasioned by requesting clearance even though a larger sales offering might be dictated by sound merchandising considerations. The passage of H. R. 9169 would be an important step in the removal of restraints to sales.

The staff feels, however, that the proposed amendment would be even more beneficial if it were broadened to exempt sales of unlike items even though the aggregate exceeded $3 million.

Cases were noted in the field, for instance at Kelly Air Force Base, where totally unrelated items were taking up valuable space awaiting Department of Justice clearance under this law, solely because the proposed offering exceeded the existing $1 million limitation. It is questionable whether this conforms with the original intent of Congress as it is difficult to perceive how the procurement by one buyer of many varying items, the total acquisition cost of which happens to exceed the dollar limitation, could conceivably be determined to "create * * * a situation in violation of the antitrust laws." Clarification of the intent of Congress might well be considered in connection with proposed H. R. 9169.

B. METHODS OF DISPOSAL OF SURPLUS PROPERTY

1. DOD POLICY

After screening by MRD for military use and by GSA for possible utilization by other agencies of the Federal Government, a large percentage of the DOD reportable excess property becomes surplus to Government needs and with nonreportable surplus property is disposed of by sale (88 percent), donation (5 percent), abandonment or destruction (3 percent), and other (4 percent). The overall figures for fiscal year 1957 are as follows:

Total dispositions	$4,207,121,000
Transferred within military	129,762,000
Transferred to Federal agencies	63,822,000
Transferred to national stockpile	6,781,000
Donations	190,155,000
Disposed of as scrap	2,169,835,000
Usable and salvage material sold	1,367,619,000
Abandoned or destroyed	104,208,000
Other dispositions (MAP, etc.)	174,939,000

As will be noted from the above, the acquisition value of items disposed of by donation amounted to $190 million and accounted for approximately 10 percent of all surplus disposal other than scrap. This total was distributed as follows:

Service educational activities	$32,976,000
Health and educational activities	151,789,000
Public bodies	4,284,000
Other	1,106,000

The donation program appears to be working well. A few instances where there were possible abuses of the program's integrity by recipients were called to the staff's attention and were referred to DOD authorities, but the allegations apparently have not yet been resolved by the military department concerned. The service educational donation procedure was recently altered to require GSA's concurrence on all such donations; also, to require that all requests clear through a central headquarters of the donee, precluding the exploitation of advantage enjoyed by local recipient organizational segments located in close proximity to military holding activities.

The donation program brings about a situation with regard to fair value reimbursement that is somewhat inconsistent with the principle that proclaims Federal Government agencies' needs for property to be paramount. Military departments and other Government agencies because of temporary lack of funds precluding payment of "fair value" requested for such property do not obtain the benefit of utilizing the property available, and it becomes eligible for donation outside the Government.

Disposition by abandonment or destruction is supposed to be resorted to after all other procedures have been unsuccessful or where the circumstances clearly justify the action. It accounted for property costing $104,208,000, or 3 percent of all property disposed of in fiscal year 1957. Regulations require adequate documentation of findings to support abandonment or destruction action and reviewing authority concurrence. Property in this category is generally valueless because of its nature, location, or limited quantity.

Sales of usable and salvage surplus property costing $1,367,619,000 were made during fiscal year 1957. Proceeds were $111,143,000. The sealed-bid type of sale was used for disposing of 87 percent of the property sold. The spot bid method accounted for 7 percent, auction 4 percent, and the remaining 2 percent was negotiated and retail types.

The relationship of type of sale to proceeds is illustrated in the following tabulation:

	Fiscal year 1957		
	Cost	Proceeds	Percent return
Sealed bids	$1,182,955,000	$94,685,000	8.00
Spot bids	99,703,000	8,334,000	8.36
Auction	58,388,000	4,876,000	8.35
Other	26,573,000	3,248,000	12.22
Total	1,367,619,000	111,143,000	8.13

It was noted that the recovery percentage varied little in the three principal types of sale during fiscal year 1957. The category "other" consists of competitively negotiated and retail sales of usually small lots of common-use, commercial-type items that are most attractive to buyers. By the same token, sealed bid sales returns are lowest because a wide range of supplies and equipment, some of which have little or no commercial application, are sold in this manner. The sales methods selected by disposal officers are determined by such considerations as (1) maximum return to Government, (2) need for prompt removal of property, and (3) location, type, and quantity of material to be sold.

The spot bid sales method is authorized for use to expeditiously sell usable property having commercial demand. It combines features of auction sales and sealed bid sales such as (1) shortened sales period, (2) condensed descriptions, (3) simplified paperwork, (4) deposits not required.

These sales, also called site sales, are intended to attract local buyers, although others are given an opportunity to participate. Reviews made at installations indicated that such sales are less expensive to administer, and faster in moving property, with good buyers response and recovery rate. Use of spot-bid sales simultaneously with other types of sales appears to be worthy of further application. The staff recommends that regulations regarding spot-bid sales be suitably revised, issued, and disseminated so that greater use of this type of sale will be made.

Auction sales are also proper for use in disposing of large quantities of surplus property having wide commercial appeal. This form of sale requires extensive preparation and organization to assure success. The quality of auctioneer services is highly relevant to the degree of success of any auction. The Army has two auctioneers on its payroll and all Army auctions are conducted by these employees. This procedure has proven to be satisfactory insofar as the services of the auctioneers are concerned. This type of sale, because of the high costs involved, should be used, however, only when the circum-

stances overwhelmingly favor its use. It is felt that the merits of auctions for Government sales have been overemphasized. The Sixth Report of the Preparedness Investigating Subcommittee of the Senate Armed Services Committee on March 14, 1956, requested the military departments to consider the greater use of auctions inasmuch as the study they conducted revealed a higher return from auctions than from sealed bids. Studies and reports by the military subsequent to the Senate report are inconclusive as to which form of sale is truly superior. This undoubtedly accounts for the divergent views on the subject held by the three services with further divergence within a single service.

Detailed examination of all available data and discussions with the people who conduct auction sales lead to the conclusion that on an overall basis there is very little difference in the net return to the Government regardless of whether the property is disposed of by auction or by sealed bid type of sale. Considerations other than net proceeds tend to disfavor auctions. The inherent circuslike atmosphere creates a distraction to employees in the general area of the auction causing loss of their full productiveness. The overhead in preparing and conducting an auction is much greater than in any other type of sale. For these reasons, and lack of convincing evidence of increased return, the staff favors deemphasis of the auction sale method for disposal of surplus property.

Negotiated sales which include retail sales constitute the least used type of sale. Yet this type of sale when used properly produces the highest rate of return. According to regulations the negotiated sale procedure may be used only when—

(1) Recovery value does not exceed $500 (may be used on higher dollar value transactions by special permission);

(2) Property is a health hazard, or will spoil or deteriorate rapidly; or

(3) Bid invitations result in no acceptable bid being received.

This form of sale generally is inapplicable to large dispositions and is closely policed by requiring disposal officers to obtain (Air Force and Navy) prior approval for its use and written justification (Army and Air Force) for each transaction exceeding $500. Some liberalization of the criteria for negotiated sales would be of assistance to disposal officers. These sales are not devoid of competition as is sometimes inferred. Evidence shows that when negotiated sales are properly used competition may be as great as under formal bid procedure. More use should be made of negotiation with manufacturers to reacquire their products. There are numerous instances where the disposal of products to the original manufacturer would seem to be in the best interests of the Government if the regulations permitted adequate negotiation and sale.

The staff recommends that the authority to negotiate sales be broadened to allow more use to be made of this important method of disposal.

Retail sales are a form of negotiated sales of popular-use items. The Army uses such sales in all areas, the Air Force overseas only, and the Navy not at all. These sales are the only type that permit sale of attractive common-use items to civilian and military personnel of the services. Not only are the returns excellent, but such sales contribute

to the morale of the employees by providing them an opportunity to buy desirable commodities.

DOD has issued no instructions on the subject of retail sales, but a directive is now being prepared to permit the service to conduct such sales under certain circumstances. The Air Force has expressed an interest in expanding the use of retail sales, while the Navy has indicated that it is not planning to use this form of sale for the present at lease of the DOD directive the Navy should participate in the overlooked, that retail sales should be liberalized, and that upon release of the DOD directive the Navy should participate in the program.

The staff's inquiry at some of the installations visited revealed a need for greater attention to general merchandising principles and sales techniques. Catalog preparation ranged from excellent to poor. There are several ways in which the catalogs can be improved. It has already been suggested that the prolog be kept to a minimum. Wider use should be made of photographs, particularly of high-value items. Homogeneous items should be grouped so as to attract specialized buyers, and quantities offered in lots should be kept within reasonable limits so as to afford the small buyer an opportunity to bid.

The staff's review of sales invitations and the many divergent types of sales catalogs showed deficiencies in identification and description. The staff noted a tendency to group too many items of unlike nature with the description "a lot of miscellaneous items." A considerable number of items were noted in this type of lotting which if adequately described and offered for sale as items would have increased the returns to the Government. The lotting of dissimilar items was noted particularly at Air Force sales held at Sacramento, Calif.; San Antonio, Tex.; and Burtonwood, England. Judgment must of course be used in lotting and preparing descriptions. There is, for instance, little justification for the degree of refinement noted at Subic Bay, Philippine Islands, where the Navy, in selling typewriter parts bringing only $238 described the lot in detail on 18 pages and itemized different parts by listing over 700 individual line items. There is obviously need for instruction in lotting and description in keeping with the quantity and nature of items being sold.

The display of property offered for sale could be improved at many installations. For example, motor vehicles should be displayed to enhance their salability. A passenger vehicle sale display observed at Bolling Air Force Base, Washington, D. C., exemplified practices that are contrary to reasonably good salesmanship. Twenty-seven sedans sold on as-is-and-where-is basis were offered without batteries, hub caps removed, sealing tape over all chrome, and engines in a preserved condition. It is obvious that the bidders' lack of a reasonable opportunity to ascertain the operability of these vehicles was a deterrent to bidding. Pig-in-a-poke selling is very unlikely to bring more than a bare minimum return. Generally accepted commercial practices should be used where practicable and advantageous, not only so that maximum returns may be realized but so that buyers will be confident that Government transactions are in line with accepted business procedure.

Surplus personal property being offered for sale is brought to the attention of the public by display, fliers, notices posted in public

places, and advertisement in trade and Government publications and in newspapers; by radio and television; and through the mail. The latter is the most widely used means and, generally, consists of mailing the invitation for bids to a list of prospective buyers.

Utilization of newspapers, radio, and television for advertising sales is limited. Disposal officers indicated a lack of knowledge regarding the regulations and were, therefore, reluctant to use them. Wider use of these means for advertising purposes appears to be desirable. Guidelines pertaining to their utilization should be prepared and disseminated to proper service operating levels.

The availability and use of the DOD special sales fund varied considerably at the installations visited. The establishment of this fund was intended as a means of improving financial management of sales operations, but its full effectiveness and use have apparently not been realized owing to varying interpretations of its applicability. The use of this fund reduces the need for using military appropriations in the disposal operations. The staff noted that this fund has not been fully utilized, yet reports of reductions in personnel and funds for military disposal activities are currently being circulated. DOD should take the steps necessary to build up the disposal program, at least to the extent that funds made available by Congress for that specific purpose are fully utilized.

It was readily evident to the staff that the wide variations among the services, as well as within a single service, in all phases of excess- and surplus-property management and disposal are not in keeping with promoting a uniformly efficient disposal operation. The staff believes that many deficiencies of the present disposal system can be eliminated through the establishment of an independent property-disposal organization within the DOD. Operating organizational structures already created by DOD and the services, which can be considered to be in consonance with the independent property-disposal organizational concept, are the MRD in the field of excess property management, the national bidders control center (NBCC) of the Air Force, and the consolidated sales operated by the Navy centers at Norfolk, Va., and Ogden, Utah.

The MRD and the NBCC have been commented on elsewhere in the report. Discussion of the proposed DOD property-disposal organization appears later.

1. Consolidation of Sales

At the present time, consolidated sales of surplus property of the 3 services have been directed by DOD to be conducted at only 2 locations in the United States. These locations are the Naval Supply Center, Norfolk, Va., and the Naval Supply Depot, Clearfield, Ogden, Utah.

In Japan, the sale of surplus property for all Air Force and Army surplus is performed under the Quartermaster Market Center, Tokyo, Japan. The volume of Air Force and Army property disposed of in fiscal year 1957 was $170 million acquisition cost. The Navy handles the disposal of its own surplus property in Japan through selling activities at Yokosuka and Sasebo. The acquisition cost of Navy property disposed of in fiscal year 1957 in Japan was $13.5 million. Sale of United States Navy surplus property in Japan should be handled

by the United States Army Quartermaster Market Center, Tokyo, Japan, in the interest of economy and efficiency.

In Europe, USAREUR (United States Army, Europe) Headquarters is presently organizing to perform all sales in France, Germany, Belgium, Luxembourg, and the Netherlands for the Army and Air Force installations under the United States Army Property Disposal Detachment, Frankfurt, Germany. The Navy has no selling activity in this area in Europe.

The 2 consolidated sales activities in the United States were established on a trial basis in 1950 to serve all military installations located within a maximum radius of 25 miles. At the present time, the Naval Supply Depot, Clearfield, Utah, serves naval installations as far away as the Naval Air Station, Denver, Colo., and the Naval Supply Depot, Spokane, Wash. The sales activities of the Naval Supply Center, Norfolk, Va., have been extended to include naval recruiting stations and other naval activities within the entire 5th Naval District. It would appear that, after 7 years of operation at these 2 localities, sufficient experience and data would have been obtained to permit a sound DOD decision as to whether or not to consolidate sales in other geographical areas. No decision has been reached. As of November 15, 1957, DOD was still "studying the results of the projects."

Staff review of the operations of the consolidated disposal projects disclosed that there are many benefits which can be derived therefrom, and there appears to be little excuse for DOD's failure to act. Among the more obvious benefits are the following:

(1) Centralization of responsibility for area disposal policy, procedure, and methods.

(2) Control of sales scheduling, merchandising, and timing.

(3) Uniformity in lotting, item description, and sales-invitation format.

(4) Centralized distribution of sales invitations.

(5) Consolidation of multiple-bidders' lists.

(6) Single point of contact for bidders, buyers, and claimants.

(7) Uniformity in making awards.

(8) Uniform claim handling.

(9) Centralized point of contact for obtaining clearances of bidders, and other clearances by the Department of State and the Department of Justice.

C. STAFFING FOR DISPOSAL

In the Navy and Air Force, disposal is usually a part of an organizational unit which is responsible for both utilization of excess property and disposal of surplus. In the Army, disposal is a separate organizational entity, utilization of excess being handled elsewhere by each of the technical services.

In the field organizations of all three services, the head is usually a military officer, although the actual disposal supervisor who heads the disposal branch is generally a civilian.

In the continental United States, tours for military personnel are usually 3 years, but assignments to schools or other temporary details quite often reduce the time actually devoted to the regular assignment. It has been the staff's observation that, generally, officers of all three services do not like assignments to "utilization and dis-

posal" organizational elements, as the consensus among them is that such an assignment does not further their military career.

In its comments on the Hoover Commission report on special personnel problems in the Department of Defense, the Department enunciated a policy that:

> Civilian personnel will normally be assigned to management positions where the specialist skills required are usually found in the civilian economy and continuity of management and experience is essential and can be better provided by civilians.

Regarding the assignment of military personnel, the comments stated:

> Military personnel will normally be assigned to management positions when required by law, when the position requires skills and knowledges acquired primarily through military training and experience, and when experience in the position is essential to enable the officer personnel to assume responsibilities necessary to maintain combat-related support.

In the light of this announced policy, this staff can see little justification for assignment of commissioned-officer personnel in the disposal field except in certain overseas areas where the services of competent civilians cannot be obtained.

Disposal supervisors, as such, occupy GS civilian grades ranging from GS–5 to GS–15, but are mostly in grades GS–6 to GS–9. There seems to be no particular relationship between GS grade and the degree of responsibility.

In one area in the United States where disposal operations are consolidated and actual sales are made by the Navy, the disposal superviser of a large Air Force base is only a GS–6, whereas at a neighboring, much smaller, Army base the same position carries a GS–9 grade. At other installations, where the entire disposal operation is conducted locally, the staff observed instances where the disposal supervisor was below grade GS–8.

There are relatively few enlisted men assigned to disposal operations. Many of those assigned were doing an excellent job. As far as this staff can determine, there is no "military occupational specialty" in the disposal field assigned by personnel regulations for enlisted men in any of the military services.

The staff found that strong recommendations, supported from several independent sources, were made by the Air Materiel Command to Headquarters, United States Air Force, that a career field be developed for military personnel in the disposal area, and that wage classifications be set up in the civilian-employee field which would provide the stability necessary for retaining qualified personnel in the disposal organization. Apparently, after 2 years, these recommendations have not been actively pursued by Headquarters, USAF.

It was generally observed by the staff that grades for disposal positions have not been established high enough to attract the quality of personnel commensurate with the responsibilities of the positions.

D. FACILITIES

The facilities provided at an installation for handling, storing, processing, and disposing of excess and surplus property have a definite bearing on the operating efficiency of these activities and the amount of proceeds received from the sale of surplus property. Therefore,

it is incumbent upon the commanding officer to provide proper and adequate facilities for these activities. The lack of proper facilities is a major factor contributing to substandard disposal operations.

Observations by this staff at installations visited indicated that, at the majority of the locations, office and storage space, both indoor and outdoor, assigned for property-disposal personnel and for excess- and surplus-property storage were usually the least desirable facilities on the installation. It was noted, particularly, that many disposal activities were conducted in widely scattered, undesirable areas. Efficient operations require that all excess and surplus activities be combined in a single area that is readily accessible to the public. In some instances, owing to the use of scattered areas, property must be moved considerable distances several times after being declared excess and before final disposal.

Such a situation was called to the attention of the commanding officer at Kelly Air Force Base, San Antonio, Tex. Some property there is first moved 14 miles from covered storage at Kelly Air Force Base annex to the outside excess yard at Kelly Air Force Base. After screening at the excess yard, it is moved again to the outside disposal yard for final disposition. This case is not cited as being unusual, but as being typical of the unnecessary movement and exposure of property before disposal.

Covered storage space provided for excess and surplus property at installations visited ranged from marginal to entirely inadequate. While not necessarily the most glaring examples of inadequate storage space, the following are cited:

At Olmstead Air Force Base, Middletown, Pa., out of a total of 250,000 square feet occupied by excess and surplus property, only about 40,000 square feet are covered. Much of the type of property handled is subject to deterioration from the weather, but has to be stored in open areas.

At the Pueblo Ordnance Depot, Pueblo, Colo., out of a total of approximately 200,000 square feet occupied by surplus property, only 7,400 square feet are covered.

The lack of covered storage space requires that sales be set up and lotted outdoors. Display of wind-, rain-, and sun-damaged property is very poor merchandising. Where protection from the elements is provided, the property is frequently covered with canvas and tied down securely. This makes visual inspection of a lot by a prospective bidder quite laborious and, during inclement weather, inspection is practically impossible. Under these circumstances, prospective bidders are prone to make only casual inspections, or forgo them entirely, and they are, therefore, reluctant to bid the top price. Even if they inspect the property, the amount they will bid is influenced by their concern that, from the time they inspect the property and submit their bid to the time they receive the property, further damage from exposure will have taken place.

It is realized that active depot stocks requiring indoor storage cannot and should not be stored outdoors to accommodate excess and surplus property. However, with proper studies, planning, and effort it is believed that sufficient indoor storage space can be made available for proper disposal activities. For example, it was noted that at many of the installations visited warehouse space was occupied by national

stockpile material (General Services Administration). Such material occupies 25 percent of the available warehouse space at the Naval Supply Depot, Scotia, N. Y. At another installation a rather large amount of old-style wooden furniture was found to be occupying premium warehouse space in a good modern warehouse. Interrogation revealed that it belonged to the Navy Bureau of Aeronautics in Washington and had been shipped to the warehouse about 10 years ago for holding.

At installations where warehouse space for excess and surplus property is inadequate for efficient operations, immediate steps should be taken to provide the necessary space by some means, such as transfer of national stockpile material to other locations, rewarehousing and compacting existing warehouse stocks, and purging warehouses of property that is actually surplus but has not been acknowledged as such.

If such steps are taken, construction of additional warehouses would be unnecessary, and, further, it is believed that considerable warehouse space now being rented could be released.

The amount of outdoor storage space provided at the installations visited is, with few exceptions, considered adequate as to available area. However, as previously stated, these areas are often widely scattered over the installation. Also many are unimproved and unsuitable for disposal operations in their present condition. During dry weather a prospective bidder is compelled to tramp through the dust, and in wet weather he must wade through the mud to inspect the property. Effort should be exerted toward consolidation and improvement of the deficient areas by the most economical and practical means. An excellent example of what can be accomplished along this line is the vast improvement of the Chateauroux, France, storage areas in the past 2 years. While consolidation of the areas there is not fully accomplished, the areas have been surfaced and cleaned up in a most commendable manner.

It was observed that the amount and type of machinery and equipment available for operation of disposal activities varied widely from one installation to another. It is recognized that the amount and type of equipment necessary for efficient operation depends upon the volume and type of excess and surplus property generated. However, considerable variation in equipment was noted even between installations handling approximately the same type and volume of property.

The consolidated Scrap Yard Handbook was published in 1955 and released by the Departments of the Army, the Navy, and the Air Force. It was intended to result in the application of standard methods in the segregation, preparation, and disposal of scrap and waste. However, this manual often is not followed, particularly in regard to equipment that should be available for the processing and handling of scrap. The use of equipment recommended by the Scrap Yard Handbook for such purposes as metal scrap baling or shearing, or for melting or sweating aluminum scrap, has been prohibited at many installations, while other installations use such equipment.

It appears that equipment available at an installation for disposal operations depends upon the aggressiveness of the property disposal officer and the interest in these activities shown by the commanding officer, rather than on any standards promulgated by the DOD.

VI. Résumé of Department of Defense Implementation of Recommendations Made by Previous Survey Groups

The staff reviewed a number of reports previously made on the subject of disposal of surplus in the military organization. Among them, although not necessarily the most important, were the following:

The Hoover Commission Report on Surplus Property * * * 1955.

Hearings of the House Subcommittee on Government Operations * * * May and June 1955.

Department of Defense Report on Foreign Excess Property, Western Germany * * * C. C. Pusey, December 1955.

Report on Study of Surplus Selling Operations—Navy * * * Booz, Allen & Hamilton, July 1956.

The Ninth Report of the Preparedness Investigating Subcommittee of the Senate Armed Services Committee * * * 1956.

A review of the problems disclosed in these reports leads inescapably to the conclusion that there are no really new problems confronting the DOD in the field of utilization of excess property and disposal of surplus property. Furthermore, from our study of the recommendations set forth in the reports and our inquiry into DOD implementation thereof, it is equally clear there have been no really vigorous efforts to solve the problems which have been heretofore identified.

Several congressional committees in the past have reviewed the military disposal activities and have drawn conclusions similar to those of the staff engaged in the present review. Outside consultants employed by the services have come to the same conclusions and have recommended many of the same corrective actions. Competent people within the DOD have perceived the problems. Sixteen separate projects have been established within the DOD to improve various aspects of the disposal program. Some of these projects, if ever completed, would achieve the objectives of many of these recommendations. Although they have been in DOD for proposed action for months and in some cases years, not one has been completed. Little more than sporadic paper shuffling and the creation of new flip charts showing proposed remedial actions result. This staff feels that the lack of any real progress is attributable to the fact that it is virtually impossible to get all the services to concur in even one simple project. The best that can be hoped for is to achieve concurrence in a meaningless version of a project which will preserve, in all important details, the status quo while being espoused as a new policy to solve an obvious problem area.

Action taken by DOD on the Hoover Commission report is typical of just how little real accomplishment there has been in implementing sound recommendations, although ostensibly concurred in by the DOD. This staff analyzed DOD supplied comments on the status of these recommendations and have commented in detail on each. This study is attached as an appendix to this report. The analysis effectively points out the lack of any real progress by DOD. It has been almost 3 years since the Hoover Commission Report on Surplus Property was published. The first published "Comments of the DOD on the Hoover Commission Report on Surplus Property," dated September 1955, concurred with virtually every recommendation made by

the Commission. While Congress is led to believe that real progress is being made in implementing these recommendations, the facts are as stated in this staff's analysis. Apparently the Congress, if it desires compliance with these recommendations, must inquire more closely into the claimed progress. Progress reports submitted by DOD on this subject should be more detailed and more specific than the one given during the House Appropriations Committee hearings in February 1957.

Despite the fact that some of these problems have been heretofore identified, the staff's survey of the military disposal field has shown there is a need for:

(1) Proper recognition and appreciation of the disposal functions involved in a personal property disposal program of $6 billion annually.

(2) Increased utilization of excess personal property.

(3) Greater consolidation of sales activities.

(4) Functional coordination throughout the Services.

(5) Continuity of service of disposal personnel.

(6) Promotional opportunities for career personnel.

(7) Uniform regulations.

(8) Disposal training program for Navy and Air Force personnel.

(9) Prompt flow of policies and decisions from OSD level to operating installations.

The staff believes that the above needs can be supplied best and most economically by an organization at OSD level which would encompass the utilization of excess personal property and the disposal of surplus personal property for all of the armed services, and recommends that such an organization be established. In making this recommendation, full cognizance has been taken of existing facilities throughout the armed services, such as the Materials Redistribution Division; the Army's Disposal Training Program; the Air Force's Consolidated National Bidders List; the Department of Defense's Cataloging and Standardization Programs; Consolidated Sales Activities in designated areas, and the media used in Europe and Japan for exchange of information; which would contribute to the effectiveness and efficiency of such an organization. The staff recommendation contemplates incorporation of these facilities into the DOD level organization.

The responsibilities of the organization should include:

(1) Publication of an Armed Forces Utilization and Disposal Manual for use of all services.

(2) Screening of all procurement requisitions for common-use items over a reasonable dollar value.

(3) The promulgation of regulations and procedures to require uniform local screening of usable nonreportable property.

(4) Consolidation of the sales activities of all services to the extent feasible and economical.

(5) Development of a career field in utilization of excess personal property and disposal of surplus personal property with promotional opportunities for civilian and military personnel.

(6) Establishing a training program for Armed Forces personnel engaged in utilization and disposal activities.

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(7) Establishing a centralized bidders' list for all services.

(8) All liaison for DOD with Department of State, Department of Commerce, General Services Administration, and other Government agencies or public bodies on matters pertaining to utilization of excess personal property or disposal of surplus personal property.

(9) Issuance of a periodic publication giving guidance and exchanging information on the utilization of excess and the disposal of surplus personal property.

If the head of the proposed organization is given sufficient authority to accomplish its objectives without first obtaining the "unanimous consent" of all the services, it will be possible to achieve a far greater degree of utilization of excess personal property and materially increase the returns from the sale of surplus personal property. No real progress can be anticipated, however, unless the organization is clothed with sufficient authority to set policy and require compliance of all the services in the field of surplus disposal. The present DOD disposal staff has limited responsibility in a general way, but apparently absolutely no authority. The often repeated excuse given this staff that the "DOD cannot require any service to do anything" is a sad commentary on the military concept of management.

Appendix

In April 1955 the Hoover Commission task force on surplus property made 23 specific recommendations on excess and surplus property. Four of these were applicable only to real property and four more were applicable to Federal agencies other than the DOD.

On February 1, 1957, as a result of a question by Representative Wigglesworth during hearings held by the House Appropriations Committee, the Secretary of Defense supplied the Committee with the information that of the 15 remaining recommendations applicable to the DOD, 8 "were fully in effect," 6 "were partially in effect" and 1 did not require DOD action. This tabulation appears on page 170 of part I of the hearings before the subcommittee of the Committee on Appropriations, House of Representatives, 85th Congress, 1st session, and is inserted here together with the supplementary statements furnished.

Recommendations applicable to Department of Defense	15
Recommendations fully in effect	8
Recommendations partially in effect	6
Recommendatons not requiring Department of Defense action	1

The major recommendation was to encourage competitive participation by potential buyers of surplus personal property.

The Department of Defense disposal program is progressive and continuing. Comprehensive and basic Department of Defense policy and procedural instructions were issued on July 13, 1954 (Department of Defense Instruction 4160.4) which were addressed to the merchandising practices recommended by the Hoover Commission; this instruction is now being revised to refine and improve disposal techniques and procedures. The booklet, How To Buy Surplus Personal Property, published in October 1954, implements this recommendation in part, as do the publications, Instructor's Guide for Personal Property Disposal Officers, dated January 1956, and the Scrap Yard Handbook, dated October 1955. All this Department of Defense merchandising guidance was referred to the General Services Administration for suggestions and concurrence prior to its promulgation.

Apart from the Hoover Commission's recommendations on surplus property but certainly within their intent is the feasibility test now underway on the establishment of a national bidders' center for all Department of Defense activities. In September 1954, the Air Force established a single location where potential buyers of surplus property could be listed to receive invitations to bid on all, or specific categories of, surplus property offered for sale. In May of 1956, certain Army, Navy, and Marine Corps activities were selected to take part in a 6-month pilot operation as a part of the study on possible extension of the Air Force system to include all activities of the Department of Defense. The test is working satisfactorily, and buyer acceptance has been excellent.

We are now finalizing, in cooperation with General Services Administration, a revision of Standard Form 114 on terms and conditions of sale. The revision strengthens the guaranty on property condition, alines Government procedures more closely with commercial practice, and provides an incentive for increased sales proceeds by giving the buyer greater recourse to the property disposal officer for adjustments.

The above tabulation and statements sound convincing to one who is not familiar with the actual recommendations, and the history of the DOD actions in response to them.

This staff asked DOD for a further breakdown showing just which recommendations, by number, could be identified as "fully in effect," "partially in effect" and "not requiring DOD action." On November 26, 1957, the staff was given the following tabulation:

1. Recommendations applicable to DOD: Nos. 1, 2, 3, 5, 6, 7, 9, 12, 13, 14, 16, 17, 18, 19, 23 (15 in all).

2. Recommendations not requiring DOD action: No. 23.

3. Recommendations partially in effect: Nos. 1, 2, 3, 5, 17, and 19 (6 in all).

4. Recommendations fully in effect: Nos. 6, 7, 9, 12, 13, 14, 16, 18 (8 in all).

The staff feels that the last two categories are worthy of additional comment so that the Congress can more fully appreciate what has been done in these categories by the DOD, and what is meant by "partially in effect" and "fully in effect."

The DOD publication, Hoover Commission Logistics Recommendations, Department of Defense Action Programs, Progress Report, October 1956, brought up-to-date as of November 1, 1957, at the request of this staff, is inserted in this appendix as the latest official DOD detailed comments on the Hoover Commission recommendations.

The staff has commented on this report under each item (designated Staff comment) and has indicated which items the DOD considered "partially in effect" and "fully in effect" as of February 1, 1957.

Recommendation No. 1: Stock levels to be reduced and excess stocks redistributed with no expenditures until levels are met. ("partially in effect").

STATUS OR COMMENTS BY DOD, OCTOBER 1956

DOD Directive 4140.6 of July 5, 1955, on interservice supply support has been implemented by the Joint Army-Navy-Marine Corps-Air Force agreement on interservice supply support of December 30, 1955, and DOD Instruction 4140.3 on management of materiel in long supply was revised on January 11, 1956. These actions are designed to implement that part of the recommendation dealing with excess property; they require the continuous interchange of supply demand review data showing re-

quirements and assets by location and position; mandatory interservicing of long supply stocks including excesses, which is, in effect, the certification of MIPR's (that no stocks are economically available within DOD) and of excess property forms (that no requirements exist in DOD) and make the interservice supply support program applicable to operating and reserve stocks where advantageous to the Government and militarily sound. With regard to levels of supply, S&L has established two projects integrating the factors of military essentiality, turnover, and value with the factors of cost to hold and cost to reorder. These projects will provide a rational basis for the establishment of the most economic peacetime operating levels of supply (the net effect of which will be to reduce aggregate assets) and optimum reorder points and replenishment periods.

NOVEMBER 1, 1957, COMMENT BY DOD

The first of these—a proposed Directives system issuance on economic order frequency—has been sent out for departmental comment. As of November 1, 1957, the Air Force and the Navy had concurred, the latter with some qualifications, and Army's comments had not been received.

STAFF COMMENT

The staff's views on the interservice supply support program have been presented elsewhere in this report (pt. II), and no further comment is deemed necessary here. The DOD comment of November 1, 1957, illustrates the inability to obtain complete and prompt concurrence in these matters.

Recommendation No. 2: Complete and apply the Federal catalog at earliest possible date ("partially in effect").

STATUS OR COMMENTS BY DOD, OCTOBER 1956

All of the objectives of this recommendation are included in the DOD Federal catalog program. DOD Directive 4130.2, dated April 6, 1955, restates the mission and objectives of the Federal cataloging program, the scope and policies of the Federal catalog system, and assigned responsibilities in connection with them. Under the program, identification and conversion schedules have been developed and are being progressively accomplished. Identification of all items in the military supply systems will be completed late this year and as of October 1, 1956, over 3.1 million item identifications have been processed, which is approximately 375,000 items over the expected number on which the schedule was based.

During the past year, the GSA resumed active participation in the Federal catalog system. Operating under Public Law 152, GSA in fiscal year 1956 identified approximately 28,000 items, which included all items in the stores stock catalog (10,000) and 18,000 items listed in the Federal supply schedules or in direct purchase contracts. These items were processed and assigned

Federal stock numbers by the OASD (S. and L.). The GSA program for fiscal year 1957 provides for the identification of approximately 60,000 items, including all remaining Federal supply schedule items and one-half of the yearly direct purchase items. In fiscal year 1958, GSA plans to identify the remaining direct purchase items and has recommended to the Bureau of the Budget a 4-year program for the identification of approximately 770,000 supply items remaining to be identified in the civil agencies.

The item identifications prepared by the GSA will be processed and assigned Federal stock numbers by the OASD (S. and L.), thus extending the Federal catalog system in use by the DOD to the civil agencies of the Federal Government.

Provision was made in DOD Instruction 4130.5, dated August 26, 1955, for the identification and classification in accordance with the Federal catalog system of all industrial production equipment of the DOD in both industrial facilities and military installations and in military supply systems. Industrial production equipment includes any equipment or machinery used in the production of goods or services to perform such operations as cutting, abrading, grinding, shaping, and forming production materials in a manufacturing, assembling, maintenance or service establishment. A tentative schedule for completion has been developed jointly by the OASD (S. and L.) and the military departments and is now undergoing final coordination prior to its official promulgation. This program will extend to the industrial system of the DOD the uniform item identification language of the Federal catalog system now being introduced into the supply systems of the DOD.

Conversion schedules carry a termination date of December 31, 1958; however, a significant acceleration is being achieved. For example, the Army and Marine Corps are ahead of their respective schedules on the number of gross items converted, and the Navy will complete conversion on 4 inventory management systems 6 months ahead of schedule. While this acceleration will not advance the terminal dates for the total conversion program, the acceleration of particular inventory segments will increase the effectiveness of cross-servicing of supplies in these areas at an earlier date. DOD Instruction 4130.3, revised and reissued on July 23, 1956, provides policies and a reporting system on conversion to Federal catalog data in all functions and at all levels of supply.

DOD Directive 4130.4 (July 6, 1955) establishes policies and provides for the correlation of DOD programs on the use and application of Federal catalog data for the purpose of improving materiel control operations within the DOD supply system.

NOVEMBER 1, 1957, COMMENT BY DOD

Cataloging program: Identification of all items in the military supply systems was completed in December 1956, and conversion continues ahead of schedule, with the Army reporting that its conversion schedules have been completed.

STAFF COMMENT

Progress on this recommendation appears satisfactory.

Recommendation No. 3: Personnel to receive training, longer assignments, and promotion comparable to combat services (partially in effect).

STATUS OR COMMENTS BY DOD, OCTOBER 1956

Not contained in this report, but is in separate Special Personnel Problems Report, which is not available here.

STAFF COMMENT

As indicated elsewhere in this report, the recommendation is a very important one and, in the staff's opinion, needs far more specific implementation than the existing DOD pronouncements which give little more than lip service to its adoption.

Recommendation No. 5: Simultaneous and exclusive reporting of excess property by inventory control points (partially in effect).

STATUS OR COMMENTS BY DOD, OCTOBER 1956

These objectives are progressing toward achievement by means of the new worldwide military interservice supply support program, as described under recommendation No. 1, and by the charters of various commodity coordination groups. These groups, consisting of representatives of related inventory control points, are establishing continuous close contact and a constant data flow aimed at DOD-wide search of assets and requirements both prior to purchase and prior to disposal action. Reporting and screening procedures are being revised to require that inventory control points be the controlling agency in the reporting and screening of excess property.

NOVEMBER 1, 1957, COMMENT BY DOD

Change 3 to DOD Instruction 4160.9, dated January 14, 1957, accomplished objective of last sentence.

STAFF COMMENT

We see here again the interservice supply support program advanced as the answer. (See staff comment on recommendation No. 1.)

Recommendation No. 6: Mandatory checking of new procurement with other services (fully in effect).

STATUS OR COMMENTS BY DOD, OCTOBER 1956

As described under recommendations Nos. 1 and 5, the interservice supply support program accomplishes all of the purposes of relevant portions of this recommendation (the remaining portions apply primarily to GSA) and, specifically, makes it mandatory for each inventory control point to check its counterparts in

the other services prior to new procurement and to utilize all economically available DOD assets in long supply before authorizing the expenditure of funds for purchase.

NOVEMBER 1, 1957, COMMENT BY DOD

None.

STAFF COMMENT

The interservice supply support program is again offered as a completely satisfactory response. (See recommendations Nos. 1 and 5.)

Recommendation No. 7: BOB and GSA, DOD (added) to review reimbursement policies in property transfers (fully in effect).

STATUS OR COMMENTS BY DOD OCTOBER 1956

None.

NOVEMBER 1, 1957, COMMENT BY DOD

None.

STAFF COMMENT

While it is true that studies have been and are being made of this subject, little progress has been made which will facilitate transfers and promote greater utilization. This could and should be done within the DOD as stated elsewhere in this report. To say that this recommendation is "fully in effect" is misleading to the point of truth distortion.

Recommendation No. 9: Legislation governing property donations be clarified as to reimbursement to DOD stock funds (fully in effect).

STATUS OR COMMENTS BY DOD, OCTOBER 1956

Public Law 61, 84th Congress, approved June 3, 1955, and DOD Instruction 7420.3, Authorized Donations of Surplus Material from Working-Capital Funds for Educational and Public Health Services, Including Research, dated June 9, 1955, and change 55–83 to DOD Directive 4160.10, Donation of Surplus Property to Educational Activities of Special Interest to DOD, dated June 28, 1956, complete implementation of this recommendation.

NOVEMBER 1, 1957, COMMENT BY DOD

Public Law 61, 84th Congress, approved June 3, 1955, and DOD Instruction 7420.3, Authorized Donations of Surplus Material from Working-Capital Funds for Educational and Public Health Services, Including Research, dated June 9, 1955, DOD Instruction 4160.14, Donation of Surplus Personal Property to Designated Activities of Special Interest to the Armed Services, and DOD Instruction 4160.13, Designation of Schools and Organizations as Activities of Special Interest to the Armed Forces, dated May 20, 1957, represent current implementation of this recommendation.

STAFF COMMENT

The prompt passage of Public Law 61, 84th Congress, approved June 3, 1955, made timely implementation by DOD inescapable.

Recommendation No. 12: Under GSA policy supervision, agencies encourage competitive participation by potential buyers of surplus property (fully in effect).

STATUS OR COMMENTS BY DOD, OCTOBER 1956

The DOD disposal program is progressive and continuing. Comprehensive and basic DOD policy and procedural instructions were issued on July 13, 1954 (DOD Instruction 4160.4), which were addressed to the merchandising practices recommended by the Hoover Commission; this instruction is now being revised to refine and improve disposal techniques and procedures, and its publication carries a target date of January 1, 1957. The booklet, How To Buy Surplus Personal Property, published in October 1954, implements this recommendation in part, as do the publications, Instructor's Guide for Personal Property Disposal Officers, dated January 1956, and the Scrap Yard Handbook, dated October 1955. All this DOD merchandising guidance was referred to the General Services Administration for suggestions and concurrence prior to its promulgation.

Apart from the Hoover Commission's recommendations on surplus property but certainly within their intent is the feasibility test now underway on the establishment of a National Bidder's Center for all DOD activities. In September 1954, the Air Force established a single location where potential buyers of surplus property could be listed to receive invitations to bid on all, or specific categories of, surplus property offered for sale. In May of this year, certain Army, Navy, and Marine Corps activities were selected to take part in a 6-month pilot operation as a part of the study on possible extension of the Air Force system to include all activities of the DOD. The test is working satisfactorily, and buyer acceptance has been excellent.

We are now finalizing, in cooperation with General Services Administration, a revision of standard form 114 on terms and conditions of sale. The revision strengthens the guaranty on property condition, alines Government procedures more closely with commercial practice, and provides an incentive for increased sales proceeds by giving the buyer greater recourse to the property-disposal officer for adjustments.

NOVEMBER 1, 1957, COMMENT BY DOD

Surplus personal property: Because of limited staff and pressure of other duties, the target date for revision of DOD Instruction 4160.4 on merchandising practices, procedures and policies has been moved up to April 1958.

The test of the National Bidders' Center was completed, and its results are being studied for possible DOD-wide adoption.

We cooperated with GSA on a revision of standard form 114, which is now in the Bureau of the Budget for approval.

STAFF COMMENT

How the DOD can state that this recommendation is "fully in effect" is beyond the comprehension of this staff. The DOD in its previously cited statement to the House Appropriations Committee in February 1957 labeled this recommendation as "the major recommendation." A careful reading of the Hoover Commission Recommendation No. 12 in its original text (which is recommended to the DOD staff responsible for stating it is now "fully in effect") shows that the feeble efforts of the DOD to put this recommendation into effect are almost meaningless.

The revision of standard form 114, so proudly pointed to by DOD, will be a help if it is ever adopted and used, but as of this writing, it has not been promulgated.

The booklet, How to Buy Surplus Personal Property, advanced by DOD as implementing recommendation No. 12, was published before the Hoover Commission report. It lists some 300 Army and Navy establishments for potential buyers of surplus property to contact. The staff does not perceive how this booklet, valuable as it may be for certain purposes, goes very far in effecting any of the five parts of recommendation No. 12.

The instructor's guide for personal property disposal officers, dated January 1956, is meaningless as far as Recommendation No. 12 is concerned. It is an instructor's handbook telling how to instruct disposal personnel but not what the instructions should include. This publication was not observed at any military field installation visited by the staff.

The Scrap Yard Handbook, dated October 1955, as stated elsewhere in this report, is outdated and is not being followed by many installations.

The revision of DOD Instruction 4160.4 has been officially postponed for the second time—from January 1, 1957, to at least April 1958. DOD Instruction 4160.4, at best, is a general instruction which admittedly is outdated and will have to be, by its own terms, implemented by each military department after revision. As stated throughout the staff report, the services operating under the present 4160.4 have variously interpreted its provisions and there appears to be no reason to believe that the issuance of a revision will eliminate this condition nor further effect compliance with recommendation No. 12.

The discussion of the feasibility test "now under way" on the establishment of a National Bidders' Center as of February 1, 1957, by the DOD should be noted. This test was completed December 18, 1956, and as of November 1, 1957, "its results are being studied for possible DOD-wide adoption." The facts are that the Army and Navy, early in 1957, submitted minority reports on the evaluation study, which the project writer within DOD stated were "considered by OASD (S&L) to be minor operating problems that could be rectified," and there the project bogged down. Despite the 10 possible advantages of a National Bidders' Center cited by the project writer, this project, which was started on February 9, 1955, "is still being studied." The staff feels that only its continued interest in this subject (covered in other parts of the report) has kept the project alive at all.

To reiterate, the staff does not understand how the DOD can seriously represent to the Congress of the United States that recommendation No. 12 is "fully in effect."

Recommendation No. 13: GSA and DOD to consult merchandising experts in property sales methods ("fully in effect").

STATUS OR COMMENTS BY DOD, OCTOBER 1956

This action was taken on April 6, 1954, when the DOD–GSA Industry Advisory Committee on Disposal of Surplus Personal Property was established. Plans are being made to increase the frequency of committee meetings, to establish subcommittees on specific problems and, in general, to utilize more fully the merchandising know-how of this group.

NOVEMBER 1, 1957, COMMENT BY DOD

None.

STAFF COMMENT

Since April 6, 1954, there have been five of these meetings held. The last one was held in March 1957. The staff was unable to ascertain whether or not future meetings have been scheduled.

Recommendation No. 14: DOD and Maritime, with outside consultants, to inspect the national defense reserve fleet ("fully in effect").

STAFF COMMENT

The staff did not study this field and cannot comment on DOD's statement that this recommendation is "fully in effect."

Recommendation No. 16: Exemption of contract termination property items from DOD screening requirements ("fully in effect").

STAFF COMMENT

The staff did not study this field and cannot comment on DOD's statement that this recommendation is "fully in effect."

Recommendation No. 17: Distribution of surplus property through service contracts with private distributing organizations ("partially in effect").

STATUS OR COMMENTS BY DOD, OCTOBER 1956

After numerous meetings with industry representatives and representatives of the military services and GSA, there still exists a series of problems which must be resolved before a pilot operation may be attempted. Whether or not these problems can be resolved is now questionable. In the meantime, the task force is considering limited application of the recommendation in the area of antifriction bearings. Also, passage of Public Law 971, 84th Congress, on August 3, 1956, now makes available a negotiated sale authority which was needed.

NOVEMBER 1, 1957, COMMENT BY DOD

The General Services Administration is presently working on a plan through which surplus aircraft engines and engine parts

may be sold by distributor agents. However, execution of a program of this magnitude presents difficult administrative problems which must be resolved before any pilot operation can be attempted.

STAFF COMMENT

The staff concurs that this is a difficult problem area. Attention is invited to the fact that the antifriction bearing program never developed as anticipated. Further, the aircraft engine and parts program has not been nearly as productive as was anticipated.

Recommendation No. 18: Develop uniform reporting system for overseas excess property ("fully in effect").

STATUS OR COMMENTS BY DOD, OCTOBER 1956

In anticipation of BOB action, DOD has completely revised its excess, surplus and foreign excess reporting system, effective July 1, 1956, under DOD instruction 4160.12, dated July 3, 1956, on reporting requirements for excess, surplus and foreign excess personal property. This instruction, with its reporting form, was submitted to BOB for possible extension to other agencies of the Government.

NOVEMBER 1, 1957, COMMENT BY DOD

None.

STAFF COMMENT

New forms of a financial reporting nature have been promulgated as stated. However, these are not always meaningful as to what types of property are being generated and sold.

Recommendation No. 19: Greater utilization of overseas excess property in foreign aid programs ("partially in effect").

STATUS OR COMMENTS BY DOD, OCTOBER 1956

DOD revised DOD Instruction 2110.8: Transfer of Reportable Excess Personal Property to Eligible Foreign Countries on a Reimbursable Basis, on August 7, 1956. Action by the military departments on this instruction will implement the statutory authorization for reimbursable assistance as contained in the Mutual Security Act of 1954, as amended. In addition, the military departments will exert every effort to fulfill grant aid program requirements from excess stocks.

NOVEMBER 1, 1957, COMMENT BY DOD

None.

STAFF COMMENT

More can be achieved in this field (see body of staff report).

Recommendation No. 23: Staff did not cover real property in this study.

DEPARTMENT OF THE ARMY COMMENTS

STATEMENT OF HON. FRANK H. HIGGINS, ASSISTANT SECRETARY OF THE ARMY (LOGISTICS), BEFORE THE HOUSE APPROPRIATIONS COMMITTEE

Mr. Chairman, and members of the committee, I am pleased to have this opportunity to appear before the committee to discuss the January 1958 report by your surveys and investigations staff on the procurement, supply, and surplus operations of the Department of Defense.

First, I should like to state, as I did last year, that we again consider the report on the various phases of logistics operations, as it pertains to the Army, to be fair and constructive. I have been particularly impressed with reports I have received of the very high caliber of your staff members who made the survey. You will be interested to know that on the 17th of March, I instructed the Deputy Chief of Staff for Logistics to institute corrective action on the matters in the report which require such action, and to furnish me periodic reports on the results. For the first time, we have the benefit of the findings of your investigating staff in the area of supply and surplus operations, in addition to procurement activities which have been previously studied.

We have already provided the committee with detailed statements reporting the Army's position and comments on that part of the report which relates to Department of the Army activities. Therefore, I shall not at this time discuss in detail all of these matters. Other representatives are available to discuss all of these matters in such detail as the committee may desire. I should, however, like to make a few remarks on some of the points raised which I consider of special significance. With respect to the portion of the report dealing with procurement, your staff dealt with the problem of procurement instructions and regulations down to procurement personnel at field levels. I was pleased to note that your staff observed areas of improvement since the last survey. We believe that our procurement regulations will never become perfect nor complete; they must change with the laws and with the times. In this connection, I have long believed that, in addition to a need for supplying field personnel with clear and concise procurement instructions, there is a concurrent need for a flow of ideas from those who operate under these regulations up to the offices which issue them.

Toward this end, in October 1957 I resumed the program of holding field procurement conferences with contracting officers and other members of our procurement teams. At these conferences I have been accompanied by a panel of top procurement policy and legal personnel, including our senior small business adviser. One such conference was held in Frankfurt, Germany, with contracting people assigned to United States Army, Europe. Other conferences have been held in San Francisco, Atlanta, Philadelphia, St. Louis, and two more are planned to be held in Chicago and Detroit. Problems are discussed frankly and gray areas are cleared up. These conferences have given the people in the field an appreciation of the problems that headquarters must solve, and give us at the headquarters level an appreciation

of the problems which are bothering procurement people in the field. This communication between levels has proved most helpful to all concerned in our common effort to do the best possible job for the Government.

In reviewing the report relating to procurement, it is apparent that there were two principal areas of Army operations which your staff felt required corrective effort. These were the absence of adequate drawings and specifications which would permit greater use of formal advertising, and the delay which had been experienced in redetermining prices under certain fixed-price contracts.

We agree that both of these are troublesome areas and require constant attention. The problem of drawings and specifications is a particularly difficult one, for which no complete solution has been found. The rapidly changing nature of some military equipment makes it unwise, if not impossible, to reduce design to the static and detailed condition which would permit the use of specifications sufficiently complete to permit formal advertising. With respect to the backlog of specifications which are of a nature which can be reduced to final details, particularly in the Signal Corps, I am glad to report that we believe this position will be corrected by the end of May 1958.

In connection with the delay in repricing redeterminable contracts, the Deputy Chief of Staff for Logistics took immediate corrective action on this matter as soon as your staff's concern was brought to his attention.

I was particularly interested to note that your staff studied the problem of negotiation, as opposed to advertised procurement. As you know, this subject has been studied by other congressional committees and has received some publicity in recent months. There is no area in military procurement which is less understood. I wholeheartedly indorse formally advertised procurement in every instance where the necessary elements are present. Indeed, this is the policy which is followed by the procurement agencies of the Department of the Army. However, I was glad that your staff recognized the impracticability of advertised procurement in those situations in which we cannot use formal advertising. As a greater percentage of the dollars appropriated to the Department of the Army goes into complex weapons and missiles systems, it would be even more important that the public understand why we cannot use formal advertising in a large percentage of procurement. In order to provide a better understanding of the nature of negotiated procurement, and to allay fears of secrecy with respect to the expenditure of public moneys, I gave instructions last summer that in future announcements of the results of procurements not made by formal advertising, that the competitive nature of these procurements should be plainly stated by indicating the number of firms which had been invited to participate, the successful participant, and, as Secretary McGuire has pointed out, unsuccessful firms are to be told why they did not receive an award. Our current efforts to provide a system of reporting our procurements to the Congress which will indicate for each type of contract the reason for not advertising, will go far toward clarifying this problem.

Now turning to the portions of the report dealing with supply, as you can well realize, the Army operates its supply system on a worldwide basis, with the prime objective of maintaining the required state

of readiness for military operations with the least overall drain on the Nation's manpower and economic resources. As you know, these two objectives are often in direct opposition—one crying out for higher expenditures, the other speaking for economies.

The Army supply system is maintained in a dynamic state which necessitates that we adopt for our use such innovations as will improve the efficiencies of our operations or reduce the requirements for inventories wherever such can be done without undue jeopardy to our state of readiness. To this end, the Army is constantly probing for new techniques and innovations which can be used effectively. Many techniques are developed by the ingenuity of the American soldier himself while others benefit from management concerns and field testing. Research is constantly conducted to devise new logistical procedures, test and evaluate proposals, and conduct an unending search for simplified procedures which will provide peacetime management tools as well as stand the test of wartime expediency.

I previously mentioned my gratification that your efforts have been extended to the areas of general supply and surplus property. I am sure your staff has found that consideration of either of these areas by itself is impossible but rather the three areas of procurement, general supply, and surplus property represent the beginning, middle, and end of the problems of supply management.

The Army has made considerable progress in the amalgamation of the functions of procurement, requirements determination, distribution and stockage considerations and disposal of unneeded supplies into a unified item manager team. In so doing it has assured that consideration has been taken of all available resources throughout the Army before decisions are made to procure. Such a technique has minimized the possibility of buying with one hand while we excess the identical item with another somewhere in this vast Army of ours.

Subsequent to termination of the Korean war, the total Army materiel inventory continued at a high dollar volume. Retention stocks excess to peacetime and mobilization requirements were high. Materiel, including repair parts, was being retained in large quantities to meet possible future years military aid program requirements. The functions of supply and stock control were often separately managed. To recapitulate, Army logistics have been substantially improved by the following:

(*a*) An integration of the vital inventory management controls placed under senior commodity managers within our Technical Services.

(*b*) Implementation of definitive worldwide retention and disposal policies with prescribed target dates for the latter.

A combined improvement program to achieve these objectives is called Operation ELIMEX. This operation requires:

(*a*) The reorganization of all existing supply and stock control points not already so combined into national inventory control points which will integrate and vest under the chief of each, the full respon-

sibilities of supply management over an assigned and related group of commodities.

(*b*) Revision of material control studies which will incorporate into a single requirements computation, total rebuild requirements and repair parts for an up-to-5-year projection.

(*c*) A reduction in retention stocks held in excess of mobilization requirements.

(*d*) A review of property held for the Military Air Program to assure the validity of the requirement.

Our major commands and chiefs of technical services indicate very enthusiastic support of and substantial progress under Operation ELIMEX. Many other improvements have been provided, including an extension of our selective stockage policies, our single line requisitioning procedures, our shipping container CONEX which enables consolidation of many small packages and permits direct delivery to the retail outlets overseas, and our expansion of the use of electronic computers and electrical means for data transmission.

Before closing I should like to mention financing of the Army Surplus Property Disposal Program. Currently, the Congress authorizes the Department of the Army to expend a limited amount of money derived from the proceeds from sale of scrap, salvage, and surplus property, to finance the cost of demilitarization and disposal activities. Although this amount is based on a requirement determined by the Department of the Army, it does place an arbitrary and fixed ceiling on disposal activities which does not allow the required flexibility to handle augmented generations, unexpected increases in backlog of inventory of surplus property, and unscheduled sales occasioned by withholding market impact items. The continued funding of the program on a limitation basis constantly presents a serious handicap and may adversely affect the Department of the Army's ability to effectively carry out its disposal program. I visualize a revolving-fund type operation to permit effective merchandising and give the needed flexibility to our operation. Such a revolving fund should be financed from the proceeds of sales. The Department of the Army logistics staff is presently exploring the advantages to be gained by such a funding procedure.

I sincerely believe that, although many of the problems included in the report have previously appeared, there is likewise considerable progress shown in determining solutions. This is merely further indication of the complexity of many of these problem areas. We have developed detailed information responsive to the specific comments of your investigating staff and are prepared to discuss these in whatever detail you may desire.

I thank you again for this opportunity to appear before you and appreciate the occasion to discuss these problems in an era of mutual understanding, all striving for an effective but economical defense establishment.

DEPARTMENT OF THE ARMY COMMENTS

ON

PART I, PROCUREMENT

OF A REPORT ON

THE PROCUREMENT, SUPPLY AND SURPLUS OPERATIONS OF THE DEPARTMENT OF DEFENSE

BY THE

SURVEYS AND INVESTIGATIONS STAFF, HOUSE APPROPRIATIONS COMMITTEE

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SUBJECT

Participation in committee staff interviews by Quartermaster Corps legal personnel.

REFERENCE

Section I, "Introduction."

The introductory remarks to all three parts of the committee staffs' report contain a comment to the effect that the cooperation afforded the staff by the Services was excellent except for the insistence by the Quartermaster General upon having legal personnel "waste their time" participating in the staff interviews with Quartermaster personnel.

ARMY COMMENTS

The Army regrets any misinterpretation of the intent of this participation by Quartermaster legal personnel in staff interviews with Quartermaster personnel. The Quaratermaster Corps has no requirement that a lawyer be present at such interviews. On those occasions when legal personnel were present they were acting as a point of con-

tact for the committee staff to accomplish any necessary coordination and with the primary objective of providing assistance to the staff in such matters as arranging further interviews with the individuals most knowledgeable of the specific subject matter and obtaining prompt handling of requests for information and documents.

The Quartermaster General was not aware of this feeling on the part of the staff for, insofar as can be ascertained, no objections on this point were raised by the staff at the Quartermaster installations visited nor at the Office of the Quartermaster General during the course of the survey. Had any such complaints arisen they could undoubtedly have been resolved satisfactorily.

At the outset of future surveys the desires of the committee staff in this matter will be ascertained and participation in staff interviews will be arranged accordingly.

Subject

Armed Services Procurement Regulation and its implementation.

Reference

Section II, same subject.

The report cites the effective efforts made by the Army to strengthen certain portions of the Army procurement procedure (APP) but adds that APP is not yet complete in all respects.

Army Comments

The Army agrees with the observation that APP is not complete in all respects but considers the document one which is not susceptible to "completion." The APP was designed as a dynamic document which could be amended readily to incorporate new or revised procurement policies and procedures necessary to effectively support the defense effort. As new policies are enunciated in the Armed Services Procurement Regulation, the APP is amended, where necessary, to implement such policies for the Department of the Army. As an aid to procurement personnel, a composite index of the ASPR and the APP is being prepared for publication within the next few months.

Subject

Qualifications of proposed suppliers.

Reference

Section III, "Advertised Procurement."

The report cites 2 Army and 2 AirForce contracts as examples of the need for policy improvement in the area of qualifications of proposed suppliers. The two Army contracts cited were:

Engineer contract DA 11–184–ENG–13963 for 30 kw. generator sets: $1,575,930.24.

Signal Corps IFB SC–36–039–57–1976–56 for meters: $75,450.

ARMY COMMENTS

In the case of the Engineer procurement of 30 kilowatt generator sets, the committee staff criticises the award as being illustrative of the difficulties which result from an incomplete or inaccurate analysis of a contractor's capabilities who is then allowed to continue until financial disaster forces his withdrawal. The staff felt that this award was made despite ample warning that performance was beyond the capability of the contractor.

As the report states, the small-business firm receiving this award had previously received its original Engineer contract for similar equipment on the basis of a Certificate of Competency despite an unfavorable preaward evaluation of the firm's capability by the engineer procurement office. In the subject case, however, the Army cannot share the committee staff's view that ample warning was available from the initiation of the procurement action to indicate that this small business concern was a poor risk.

The preaward survey indicated that the firm had sufficient production and financial capacity to perform satisfactorily. In addition, it had satisfactorily performed the earlier production contract (on which the Certificate of Competency had been issued) amounting to approximately $1,800,000 with a performance rating of "good." The contracting officer had no basis for rejecting the firm's proposal in the face of these findings nor was there any reason to expect the series of financial difficulties subsequently to be encountered as enumerated in the staff's report.

The Army never knowingly and willingly places a contract with a firm considered incapable of satisfactory performance.

The Army's best judgment was that the sequence of actions taken in this case were in the best interests of the Government and consistent with the intent of Congress and Defense policy regarding assistance to small business.

The Signal Corps case cited was one where the Small Business Administration issued a Certificate of Competency upon application of the low bidder who had previously been determined not capable of satisfactory performance by the Signal Corps Contractor Evaluation Board. The report states that the contracting officer recommended an appeal but the local Signal Corps authorities made no formal protest and the contract was awarded.

The report is correct with respect to the original findings of the Signal Corps Contractor Evaluation Board. A review of the record in this case reveals however that, prior to issuance of the Certificate of Competency, the Small Business Administration had arranged for adequate financial assistance through a local bank and for a competent engineering consultant to assist the company during the life of the contract. Further, SBA had obtained the written agreement of another concern, whose ability to build the item was unquestioned, to lend any necessary support to insure performance.

In view of these developments, the Signal Corps Contractor Evaluation Board and the contracting officer withdrew previous objections and the contract was awarded.

Cases of final disagreement between procurement officers and the Small Business Administration regarding a proposed contractor's

ability to perform are relatively rare in Army procurement and have posed no really serious problem. In cases where efforts to reconcile differences are unsuccessful and the contracting officer determines that acceptance of a Certificate of Competency would not be in the best interests of the Government, the Army Procurement Procedure provides an appeals procedure and withholding of the award pending decision by higher authority. Although there is no formal procedure for hearing appeals at the Washington level, informal discussions are arranged between Army representatives and the Small Business Administration to insure that the latter has all the facts available to the Army. Under Public Law 163 of the 83d Congress however, the decision of the Small Business Administration is final in such cases.

SUBJECT

Lack of drawings and specifications suitable for formal advertising.

REFERENCE

Section IV, "Negotiated procurement."

The staff report deals with this subject at some length. Principal criticisms of the Army were as follows: (1) Some contracts placed by negotiation cover items previously procured and steps should have been taken to obtain plans and specifications of sufficient detail to permit formal advertising; (2) Backlog of drawings in Signal Corps; (3) Engineering contracts being placed with commercial firms to reduce the backlog of drawings should be supplemented by a firmer policy of obtaining adequate and acceptable drawings either at the time of item development or concurrently with the first production contract; and (4) Two Ordnance procurements were cited as illustrative of the problem viz: Contract DA 20–018–ORD–15786 for fuel trailers and contract DA 20–018–ORD–15711 for ¾ ton trucks.

ARMY COMMENTS

Department of Defense policy does, in fact, require that production-type drawings, sufficiently definitive to constitute a basis for procurement, be delivered to the Government under a contract "which has as one of its principal purposes experimental, developmental, or research work and also calls for models of equipment or practical processes" (ASPR 9–202.1 (c)).

It is generally in the best interests of the Government to delay procurement of production-type drawings of an item under development until the user (Continental Army Command, for example) has indicated its acceptance of the developmental item. Such acceptance usually occurs late in the development cycle, after Engineer test or user test. Further, many of the items for which research and development contracts are placed never actually reach production status. Premature action to obtain production-type drawings could therefore result in a waste of Government funds, particularly in the case of complex items where the cost of preparation of drawings is significant.

On occasion the urgency of operational requirements may dictate that a contract be let immediately for an initial production order. To

delay procurement in order to permit preparation of manufacturing drawings according to Government standards after user acceptance, so complete as to enable either formal advertising or competitive negotiation, can be expected in some cases to set back deliveries of military items up to a year or longer.

Negotiation of the initial production order with the developing contractor may be in the best interest of the Government for the reasons outlined in ASPR 3–108. It is particularly applicable where development and production are telescoped, or where the developer has acquired specialized techniques or novel design concepts which will facilitate production engineering of the item. The Department of Defense, as set forth in ASPR 3–108, recognizes that in many instances it is frequently in the Government's interest to award the first production contract of specialized military equipment to the research and development contractor. It is the policy of Department of Defense, however, that "In the placing and administration of research and development contracts, no commitment shall be made to contractors with respect to obtaining production contracts."

With respect to the backlog of Signal Corps drawings cited by the staff, the Signal Corps agrees that records available to the staff indicated that at the end of fiscal year 1957 there was a backlog of 34,717 drawings to be reviewed. An audit has disclosed however that this figure was in error. Approximately 15,000 drawings which had been reviewed had not been posted to the records reviewed by the staff. Through joint efforts of the Signal Corps and the contractor this backlog had been reduced to 12,108 as of January 31, 1958, and indications are that a current position will be reached at the end of May 1958. In order to avoid the development of a backlog in drawing review in the future, plans are being developed and budgeted for to continue the utilization of an engineering contract in fiscal year 1959 to facilitate maintenance of a current position.

The Department of the Army agrees with the committee staff that obtaining adequate drawings and specifications poses a most serious problem and one which requires the exercise of continuous aggressive action on the part of procurement personnel. The Army readily admits that it has found no complete solution to the problem, however, every practical approach known is being taken to minimize its impact on procurement operations.

SUBJECT

Lack of drawings and specifications suitable for formal advertising.

The following are illustrative of approaches currently being taken by the Army in its continuing effort to minimize this problem:

(1) Closer control is now being exercised over the use of authority to negotiate under title 10, United States Code, section 2304 (a) (10) on the basis of "sole source" and "inadequate specifications or descrip-

tion." By directive of September 11, 1957, the Department of the Army required, among other things, that heads of procuring activities give prior approval for such use of authority to negotiate when the proposed procurement is estimated at $100,000 or more. This directive also requires an after-the-fact review by heads of procuring activities of the justification for the use of negotiation under title 10, United States Code, section 2304 (a) (10) on all purchases negotiated under this authority when prior approval was not given. In addition, the Army is conforming to the new ASPR requirement (January 2, 1958) that proposed procurements of $50,000 and over which are to be negotiated on the basis of lack of adequate specifications or description under title 10, United States Code, section 2304 (a) (10) will be approved in advance at a level higher than the contracting officer; the Army has specified that this level will be the head of the purchasing office.

(2) By directive of March 11, 1958, chiefs of technical services were directed to take appropriate action to determine that there is justification for requiring a manufacturer to redraw any item where drawings to military standards for the item have previously been prepared by the manufacturer for another military agency.

(3) With respect to proprietary items, the Army has drafted a proposed clause for inclusion in developmental contracts which will require that, unless approved by the contracting officer, a contractor will not knowingly, in the performance of the work called for by the contract, (i) "produce an end result requiring the Government to pay patent royalties, technical assistance fees, or other such costs for using equipment, production techniques, methods, or processes, or (ii) produce an end item having incorporated into it any part, component, subassembly or combination thereof covered by a patent or which is not competitively obtainable by the Government from two or more sources." A similar approach has been employed by the Ordnance Corps to afford the Government prior knowledge of proprietary items and to preserve the right to accept or reject the use of such items. The Army proposes to establish a clause of this type in APP, or in ASPR if found acceptable by the other military departments.

(4) With respect to timely delivery of production drawings, the Army has developed a proposed procedure, which is now under study by the Technical Services, designed to set forth more specific army-wide contractual requirements as to the points in the development cycle at which (i) the manufacturer will begin preparation of production drawings in accordance with military standards, and (ii) delivery of such drawings will be made to the Government.

CONTRACT NO. DA 20–018–ORD–15786

In the original development of a 5,000-gallon gasoline semitrailer, eight manufacturers were requested to submit proposals. As a result, Fruehauf submitted the low proposal and was awarded the development contract (DA 30–018–ORD–14233) on March 16, 1956. This contract specified facility drawings were to be furnished upon completion of testing and development work. These facility drawings were delivered to and accepted by Detroit Arsenal on January 31, 1957, by Fruehauf.

Before the Ordnance Corps itself, or through contract, could convert

these drawings to Ordnance format as suitable for issuance of an IFB, an urgent overseas requirement was received. The subject production contract was next placed with Fruehauf (the developer) requiring delivery of 509 each 5,000-gallon, gasoline semitrailers and delivery of a complete set of drawings on Ordnance format with the first preproduction pilot model. These drawings with some exceptions, which are proprietary rights components, were delivered to Detroit Arsenal on January 8, 1958, and are available for future procurements. An invitation for bids on 345 additional trailers was distributed to prospective bidders on February 20, 1958.

CONTRACT NO. 20–018–ORD–15711

This contract calls for production of 3,400 each, ¾-ton, 4 by 4, M37 vehicles to satisfy a military tactical requirement for a 4-wheel drive truck with rugged construction for cross-country work.

In 1948, the Army faced the choice of developing at its own expense a vehicle on which it would have complete reproduction rights or to modify a commercially produced truck to fill its requirements.

The decision was made to modify a commercially produced vehicle for this need. This decision was based on consideration of savings in development time and costs, tooling for production and production of vehicles and spare parts. These benefits to the Government have acted to limit competition. The commercial truck contained many proprietary components which were incorporated into the military version of the truck. At the time of the initial production contract, efforts to acquire reproduction rights involving their proprietary data having commercial application were unsuccessful. In fact, the automotive industry in general has consistently refused to grant unlimited use of drawings in such cases, on the rather reasonable basis that they are background data, the release of which would allow dissemination of valuable engineering, test, and prove-out data, to their competitors without any payment therefor.

In the cited contract the real restriction upon competition was due to the proprietary rights owned by the contractor. Availability of complete drawings and specifications in itself will not permit production of the vehicle by other than the present contractor without infringement of the contractor's proprietary rights. The statement supporting negotiation of this contract without competition should have been based upon the proprietary rights and intellectual rights that still remain the property of the contractor.

SUBJECT

Ordnance (VEA) Contract DA–20–018–ORD–15787 for "Jeep" drawings.

REFERENCE

Section IV, "Negotiated Procurement."

The staff was critical of certain aspects of this contract. Initial criticism was directed to the amount of the fixed fee. This was followed by several numbered objections, viz: (1) Hourly rate basis for paying subcontractor, (2) overhead allowance for administration of

the subcontract and (3) the qualified personnel available to the subcontractor. Finally, the staff was critical of the fact that no other companies were considered when making the contract award.

Army Comments

This is a vehicle engineering contract which calls for design and redesign of vehicle and components in 13 different categories, engineering and observer services in 5 different categories and conversion of facility-type drawings to Ordnance format suitable for formal advertising. The limitation on fixed fees for cost-type contracts involving such experimental, developmental and research work, set forth in ASPR 3–404.3 (c) is more liberal than for fees in production contracts.

It is common practice in the automotive industry to subcontract to engineering service companies work in excess of a fixed level of activity which the prime contractor retains to keep his permanent organization busy throughout the year. Wherever such an arrangement is entered into, the prime contractor provides engineers acquainted with the overall objectives of the program to supervise and direct the subcontractor's drafting room operation, and the prime contractor remains fully responsible for the performance.

With respect to the numbered objections by the committee staff to the subcontracting arrangement, the following is offered:

Observation No. 1: The hourly rate basis on which the subcontractor supplied personnel (from $2.71 to $4.75) was the lowest rate offered among 15 proposing firms.

Observation No. 2: The burden rate which develops the $1.91 per hour applicable to direct subcontract labor is based on a provisional rate of 163.5 percent applicable to the Special Military Vehicles Department and the other departments of the Engineering Staff division of Ford Motor Co. Subsequently, this burden rate was reduced to 141 percent (or $1.48 per hour) and will, in July 1958, be subject to audit by the Army Audit Agency and the contract will be adjusted to reflect actual costs. Qualified price analysts and cost accountants of the Ordnance District examined and approved the allocation of indirect costs to develop the provisional rate cited. The total cost impact is ultimately borne by the Government and the allocation as direct or indirect costs has no effect on the final results so long as all types of costs are found by audit to be allocable to the contract being performed. Reclassification of Ford Motor Co.'s indirect to direct labor costs as confirmed by audit would have the effect of raising the Ford direct labor costs and reducing the burden percentage rate, but total dollar expenditure would be consonant with actual total outlay.

Observation No. 3: The term "available qualified personnel" as employed in this connection normally refers to management and supervisory personnel of the engineering services firm. It is also normal, for such firms, to hire the required detailers and checkers after a contract is obtained. Such procedure was, in fact, followed in this case. At the time of final negotiations, Ford Motor Co. contemplated subcontracting for these services in the amount of $127,000. Actually, only $8,419 worth of services were subcontracted.

The vehicle under discussion is an entirely new vehicle designed to meet the highly mobile requirements of the future Army and it offers

very little interchangeability with the current ¼-ton Jeep M–38–A–1 produced by both Willys and Ford Motor Co. Since 1951, Ford Motor Co. has been the sole prime contractor engaged in a research and development program to design, test, redesign, and improve pilot models of new vehicles. As a logical continuation of their research and development work, Ford Motor Co. was selected to prepare detailed manufacturing drawings to Ordnance format that will allow competition for the initial production contract as required in ASPR 3–108. The M–151, developed by Ford, has never been in production.

Subject

Additional areas for improvement in contracting methods.

Reference

Section IV, "Negotiated procurement."

The staff commented that, in addition to efforts to reduce the necessity for negotiation in favor of formal advertising, contracting methods, techniques and regulations themselves can be improved. The following were cited: (1) A more careful selection and consideration of sources and full cognizance given past performance would tend to eliminate a very troublesome area, (2) a closer and more active support by headquarters levels of field recommendations would prove beneficial, and (3) a reconsideration of practices and policies governing the necessity of obligation of funds within the same fiscal year of commitment would relieve time pressures on contracting officers to the benefit of Army contracting.

Army Comments

The report contains only one example where the Army is criticized for incomplete or inaccurate analysis of a firm's capability. This was the Engineer case previously discussed under the heading: Qualifications of proposed suppliers.

The Army fully concurs in the need for careful selection of sources and believes that we have procedures which are effective for conducting preaward surveys and evaluating the ability of proposed suppliers. To further strengthen procedures in this area, the Department of Defense has recently undertaken a study to review the preaward survey procedures used by the various services. The object of the study is to attempt to standardize the procedures to the extent possible and make any improvements which appear to be indicated. The Department of the Army is participating in this study.

Other significant actions taken to improve our preaward survey procedures include:

(1) The Armed Services Procurement Regulation (1–307) was revised in February 1958 to provide for (i) written affirmative determinations of prospective contractor responsibility to be retained in contract files, (ii) assurance of availability of necessary facilities, (iii) limitations to discourage the practice of multiple bidding, (iv) affidavits, where necessary, to prevent practices prejudicial to fair and open competition, (v) consideration of existing delinquencies in evaluating ability to comply with required delivery schedules, (vi)

more emphasis on the necessity for prompt execution of surveys and for verification of information where appropriate, and (vii) adequate documentation of contractor performance history.

(2) This subject is given considerable coverage at the procurement conferences which are conducted periodically at various locations throughout the United States by the Assistant Secretary of the Army (Logistics).

The comment regarding more active support of field recommendations was not elaborated upon but appears to refer to the staff's remarks under "Advertised Procurement" regarding appeals from the issuance of Certificates of Competency which are felt unjustified by contracting officers. The position of the Army on this matter has been stated previously under the heading "Qualifications of proposed suppliers."

As to the time pressures on contracting officers as a result of the necessity for obligating funds within the same fiscal year of commitment, normally there are no statutory restrictions which require that no-year account funds be obligated in the same fiscal year in which they are committed. Such requirements as are imposed by the Army for obligation of funds in the same fiscal year of commitment stem from program controls exercised by the Bureau of the Budget and the Department of Defense. This suggestion has, therefore, been referred to the staff of the Department of Defense for consideration. Single year fund accounts, however, must be obligated in the fiscal year for which appropriated.

Subject

Letter contracts.

References

Section V, "Types of Contracts."

The staff noted that, although there was an increase in the number of letter contracts issued by the Army in fiscal year 1957 as compared to the prior 14-month period (95 vs. 64), the time needed to definitize them was reduced considerably.

Army Comments

This increase in the number of letter contracts issued in fiscal year 1957 in no way reflects a relaxation of the Army's requirement that such contracts be used only when the interest of national defense demands that a contractor be given a binding commitment so that work can be commenced immediately. As noted by the staff, the increase in fiscal year 1957 was due principally to procurements in support of the missile program.

Rigid restrictions on the use of letter contracts are contained in both the Armed Service Procurement Regulations and the Army Procurement Procedures. The Ordnance Corps, which has the greatest requirement for such contracts in the Army, has placed additional restrictions to the effect that no letter contract will be amended to increase the quantity of items to be procured, to add other items, or to provide for additional facilities.

The use of letter contracts will continue to be carefully controlled, however, it must be recognized that the telescoping of development with initial volume production of certain missiles and other advanced weapons, as well as other urgent procurement requirements will necessitate continued use of such contracts.

As a companion action to the close control of the use of letter contracts, the Army will continue its efforts to achieve definitization of these contracts as soon as practicable. The Army notes with pleasure that the staff was aware of our accomplishments as a result of this effort.

SUBJECT

Price redeterminable contracts.

REFERENCE

Section V, "Type of Contracts."

The staff notes that in the report furnished by the Army on price redeterminable contracts over $300,000 in value which were outstanding as of June 30, 1957, there were 115 which had not been finalized within the Army's desired objective of 120 days following the redetermination date in the contract. One hundred and three of these were over 180 days past the redetermination date. The staff was critical of the delays and observed that it will be interesting to note the results of the "follow-up" program the Army has initiated. Examples were also cited by the committee staff of three Ordnance contracts in Europe in which the staff felt that sound application of the principles of price redetermination had not been observed.

ARMY COMMENTS

The Army considers the staff's criticism well justified and has been making a concerted effort to improve the situation since becoming aware of the condition existing at the time of the report. The Army is pleased to report considerable progress in this effort. As of January 31, 1958, action had been completed on 94 of the 103 contracts reported to the staff as over 180 days beyond the redetermination point.

A monthly reporting procedure has been initiated which covers all price redeterminable contracts in the Technical Services which have not been completed within 120 days after the date the redetermination point was reached. This report reveals that the number of redeterminable contracts of $300,000 and over which had gone 180 days or more beyond the redetermination point had dropped from the June 30, 1957, figure of 103 down to 20 as of January 31, 1958 (latest report). Further, as of this same date, the number of redeterminable contracts in *all* dollar value categories which were 120 days or more beyond the redetermination point was 84 (total for all Technical Services).

It can be expected that there will always be some situations under which price redetermination actions are not completed within the 120-day period. Generally, it is advantageous to the Government to reach agreement with the contractor on revised prices and not resort to uni-

lateral determinations. The Army, however, does not consider it advisable to prescribe a hard and fast rule as to a specific period of time in which price redetermination must be completed. Such time limits could put contracting officers in an adverse bargaining position. One hundred and twenty days is considered a reasonable target and efforts will continue to keep delays beyond this target point to a minimum.

CONTRACT NO. DA–91–557–EUC–329 (90MM SHELLS)

This is one of the Army contracts cited in which the staff noted serious delays in completion of price redetermination and implied a criticism of the withholding of payments ($800,000) from the contractor as a safeguard against possible overpayment.

A review of current records at Ordnance Procurement Center, Sandhofen, Germany, discloses that final delivery under this contract was completed on October 22, 1957, rather than mid-1957 as stated in the report. Further, the amount to be withheld was reduced to $500,000 on July 11, 1957, and no payment to the contractor was affected by this withholding action until September 25, 1957, since deliveries prior to that date were payable within the amount not withheld.

The terms of the contract established 90 days beyond completion as the period during which redetermination negotiations were to be conducted however, by agreement with the contractor, February 19, 1958, was set as the date these negotiations would begin. These negotiations, which resulted in a recovery to the United States of approximately $178,000, were completed February 21, 1958.

Admittedly, the redetermination action was about 30 days behind that contemplated in the contract, however, the delay was by mutual agreement and was not as great as the report implies.

CONTRACT NOS. DA–91–557–EUC–100 AND 123 (AMMUNITION)

The staff criticized the fact that provisions for redetermination in the prime contracts were not extended to the subcontract work (about two-thirds of the total). On the basis of cost information the prime subsequently obtained from the principal subcontractors, the staff observed that the cost to the Government would have been $2 million less if price redetermination had been extended to the subcontract work.

Both of these contracts were negotiated in May 1953. Information is not presently available as to the consideration which was given to the extension of price redetermination to the subcontractors during negotiations of these contracts. It should be pointed out, however, that in fixed price, price redeterminable contracts, the contracting officer is not always in a position to require that the redetermination provisions be extended to subcontracts. This is entirely dependent on the agreements reached during negotiation and the type of contractual arrangements made between the prime contractor and his subcontractors.

In June 1953 the Army Procurement Procedure was revised to incorporate a provision in the price redetermination clauses prescribed for Army fixed-price contracts to the effect that when subcontracts are on a cost or price redeterminable basis, contracting officers are afforded

the same privileges of reviewing subcontractors' cost information or conducting audits of subcontractors operations as are provided in connection with the prime price redeterminable contract.

This revision was subsequent to the time the two contracts in question were negotiated. As noted by the staff, efforts by the contracting officer and the contractor to secure agreement of the subcontractors to redetermination were unsuccessful.

SUBJECT

Time and materials contracts.

REFERENCE

Section V, "Types of Contracts."

The staff commented that few instances were noted of the use of time and materials contracts in the Technical Services but cited one ordnance contract (DA–04–495–ORD–430) as an isolated one but illustrative of the need for continued surveillance of contracting practices within the Services. This contract was continued for a period of over 3 years. The report states that after the first year of the contract, no attempt was made to negotiate another type of contract, such as cost-plus-fixed-fee or fixed price.

ARMY COMMENTS

This contract was placed with the Firestone Tire & Rubber Co. for modification of CORPORAL missile systems "until such time as these items are firm in design and only field type modifications are required." The amount allotted to the contract for all work ordered through June 30, 1957, was $4,496,452.60. During the period February 14, 1953, to June 30, 1957, numerous engineering changes were issued, necessitating system modifications. Each modification project was different from the other and was required on a "crash basis." Most modifications were applied only once. There was no repetitive work involving volume rebuilding of an item, such as in the automotive field.

As a result, during the period February 14, 1953, to June 30, 1957, there were no data available to determine in advance the type of work and material required, and no historical cost data available to permit planning and estimating necessary to enter into another type of contract. Such a situation is the type "* * * not possible at the time of placing the contract to estimate the extent or duration of the work or to anticipate costs with any substantial accuracy * * *" (p. 4, sec. III, Armed Services Procurement Regulation).

Diminishing "crash" program requirements and experience gained over the period of the Time and Materials contract life enabled Ordnance to convert to a CPFF contract in June 1957.

SUBJECT

Contract administration.

REFERENCE

Section VI, same subject.

The staff noted that the Army has corrected the principal deficiencies highlighted in last year's report and that the files examined contained complete data except in a few isolated cases. Criticism was directed to the omission of certain documents in Signal Corps files examined and a case of lack of coordination between a field inspector and the headquarters of the Transportation Corps Supply and Maintenance Command.

ARMY COMMENTS

The Army is pleased to note that the staff found the principal deficiencies highlighted in last year's report have been corrected. The missing documents in the Signal Corps files can only be attributed to human error and oversight and not in consonance with procedural directives issued by the Signal Corps and the Department of the Army.

The Transportation Corps has not been able to identify the incident referred to by the staff regarding the TCMSC resident inspector and the conflicting information given the contractor, and the Army regrets that it is not in a position to offer comments on the matter.

SUBJECT

Government-to-Government Agreements (no profit provisions).

REFERENCE

Section VIII, same subject.

The staff cited 4 procurements in Europe (1 Navy and 1 Army contract in Italy and 2 Navy contracts in Spain) in which it was concluded that the "no profit" provision of the basic agreements with the countries involved may not have been strictly adhered to. In connection with the Army procurement, the staff reported that an Army Procurement Center in Europe contracted with an Italian firm for ammunition with a contract price of almost $8 million which included a 5 percent profit of $390,000, apparently without knowledge that the firm was wholly owned by the Italian Government or that contracts with such government-owned firms should be without profit.

ARMY COMMENTS

The Army contract referred to in this part of the report has been identified from records of Ordnance Procurement Center (OPC) Sandhofen, Germany, as DA–91–557–EUC–180, awarded to the Italian firm Nuove Reggione Officine on June 4, 1953, in the amount of $7,815,405 for five types of 75-millimeter ammunition.

Although the firm stated in its bid letter that the prices included a profit of 5 percent, price redetermination negotiations later (in 1955) reduced the contract amount tentatively to $7,755,126.72, including 2.63 percent profit.

Though both the Italian Government and the contractor insisted that the firm was not owned by the government, investigations con-

ducted at the request of the contracting officer by the United States Army Europe (USAREUR) Audit Agency concluded in a report dated February 18, 1955, that the firm was, in fact, owned by Mechanical Industry Financing Agency (FIM) which, in turn, is owned by the Italian Government. Based on this report, the USAREUR Judge Advocate rendered an opinion on March 8, 1955, that the firm "Nuove Reggione is owned and controlled by the government of Italy." By letter dated June 3, 1956, OPC advised the Commanding General, USAREUR Ordnance Command, who in turn referred the letter to CINCUSAREUR, that it was intended to withhold payment of the 2.63 percent profit ($198,620.38) disclosed in the price redetermination negotiations referred to above.

In memorandum dated December 7, 1955, the Defense representative, North Atlantic and Mediterranean Areas (Def Rep NA&MA) instructed the deputy CINCEUR that, "in general, no further attempts shall be made by the procurement services to seek to eliminate potential governmental profits in individual contracts." According to this same memorandum "negotiations on this subject (recovery of profits) are to be conducted on a diplomatic level by the United States Embassy in the country concerned, with the assistance of the Defense Representative, NA and MA. In such negotiations contracts will be considered collectively, in accordance with the terms of the "no profits" clause in each Offshore Procurement (OSP) Agreement." This memo was passed by the Deputy CINCEUR to CINCUSAREUR for guidance on December 15, 1955.

In view of this directive memorandum, USAREUR replied to the OPC letter, in part, "requesting that you release and make payment of funds, which include profit, to the above cited firm (Nuove Reggione)."

Thus, the OPC records indicate that the contracting officer was aware of the conditions and action to recover the profit would have been initiated but for the instructions previously described.

With regard to the June 30, 1956, cutoff date for profit refund established in the Memorandum of Understanding with the Italian Government, USAREUR has advised that this date has been extended from year to year, presently established as June 30, 1958. Further extension is anticipated.

SUBJECT

Stabilization of tours of duty.

REFERENCE

Section IX, "Miscellaneous."

The report refers to Army Logistics Directives issued in February and April of 1956 regarding stabilization of tours of duty for military personnel in key procurement positions to a minimum of 3 years and, where feasible, 4 years. From an examination of the "Army Key Procurement Officer Report" for fiscal year 1957, the staff concludes that these goals are not being reached. Further, the staff feels that the Army Technical Services need further guidance to arrive at a common interpretation as to what constitutes a "key procurement position."

ARMY COMMENTS

The staff's conclusion is aparently based on the fact that the average tenure for the 8 Ordnance Corps officers who were transferred from key procurement positions during fiscal year 1957 was 29.5 months. As the report indicates, 5 of these had completed less than 3 years in their position, and 1 of these 5 was replaced for compassionate reasons. As for the other 4, 2 were due for overseas assignment and were replaced by officers with specialized training in management engineering who could take over these positions and be stabilized for the maximum period; the remaining 2 merely exchanged key positions to afford each additional training and experience.

Reports received since the initiation of the stabilization program in February 1956 indicate that only 12 officers have been transferred from key procurement positions before completion of a 3-year tour. This is not considered excessive for it is recognized that there will always be instances where full attainment of stabilization objectives cannot be reached in the case of highly qualified military personnel. Emergency and critical requirements in the accomplishment of the Army's overall mission will necessarily preclude this in some cases.

Only one of the semiannual status reports has been received since publication of the criteria for designating key positions (discussed below). Although the Army feels confident that it has made substantial progress in the stabilization program, it does not yet have sufficient experience data on these key positions to demonstrate this progress statistically. This will be developed as additional reports are received.

The staff further commented that "The Army has not yet corrected the situation found by the staff last year wherein the Technical Services were using different interpretations of what constituted key procurement positions."

The Department of the Army, after noting the criticism in the previous report to the committee, took immediate action to develop and public Logistic Directive 226–611. This directive, issued on May 9, 1957, defined key procurement positions in two categories, key procurement policy positions, and key procurement management positions. The initial reports under the new directive were received during September 1957. Although it was anticipated that certain refinements would be necessary in the early stages, it is considered that, with some minor discrepancies, this report adequately covered the key procurement positions in the Technical Services. It should be recognized that the differences in the procurement organizations and missions of the Technical Services create somewhat different concepts of key positions with respect to grades, etc. It is believed that major differences in interpretation have now been resolved.

Since only one report has been rendered under the new definitions of key procurement positions, it is believed advisable to delay any extensive revision or amplification of these definitions until the report due during the latter part of March 1958 has been completely reviewed. If this report indicates a significant difference of interpretation by reporting agencies, immediate steps will be taken toward clarification.

SUBJECT

Armed Services Board of Contract Appeals.

Reference

Section IX: "Miscellaneous."

The staff observed that the period of time for processing an appeal through the Armed Services Board of Contract Appeals (ASBCA) was becoming so lengthy as to rather seriously impair the effectiveness of the procedure.

Army Comments

The delays observed by the staff are principally due to the backlog of Army appeals, which at one time reached 594 cases. As of February 1, 1958, the backlog had been reduced to 516 cases and is expected to continue to decline.

A considerable portion of the recent backlog of the Board consisted of appeals arising out of the Quartermaster Contract Review Agency examination of old Armed Services Textile and Apparel Procurement Agency (ASTAPA) contracts. Having substantially completed its task, the Contract Review Agency was abolished in December 1957. The residual ASTAPA files still being processed could result in only a few additional appeals. Although it will apparently take quite a few months to dispose of the current backlog of Army appeals, when this is accomplished the problem is not expected to recur.

The Secretary of the Army is now considering appointing a personal representative to hear and decide small dollar value appeals, those less than $1,000.

Part II. Supply

1. Introduction

(*a*) In February 1957 the Committee on Appropriations directed its survey and investigation staff to extend its scope of coverage to include inquiries into:

(1) Methods (and effectiveness thereof) used in determining unit costs and quantitative requirements for end items and for spare parts.

(2) Efficiency in operations of domestic and overseas supply services.

(3) Factors which cause generation of surplus property and efficiency of disposal of such surplus property.

(*b*) During 1957, the survey and investigation staff visited Army supply activities in both the United States and overseas. In making its investigations into the efficiency of Army supply operations and methods of requirements determinations, the survey staff made objective inquiries into selected Army operations and procedures for the purpose of determining problem areas which appear to be causing difficulty to the Army in its management of the most massive and widespread supply distribution system ever maintained by any nation during a noncombat period. In its report, the survey staff has cited specific cases to illustrate the basic problem areas which it has found appropriate for comments.

(*c*) In reviewing the report, the Army has focused its attention toward the basic problem area involved rather than the specific cases cited. This review discussed the problem areas as outlined in the selected supply operations and procedures covered by the report.

2. THE ARMY SUPPLY SYSTEM

(*a*) Within the framework of broad policy guidance provided by the Department of Defense, the Army operates the Army supply system on a worldwide basis with the prime objectives of maintaining the required state of readiness for military operations with the least overall drain on the Nation's manpower and economic resources.

(*b*) The premises of these two objectives are often directly opposing each other in that one is geared toward maintaining such a state of readiness as to assure quick action with the means necessary to make that action both immediate and decisive, while the other objective is geared toward draining from the national manpower and economy the minimum expenditures essential to maintain the national security.

(*c*) The maintenance of a constant state of complete readiness for immediate decisive combat action is prohibitive from the economic point of view; likewise, the failure to provide for that degree of readiness which will permit us to meet any serious challenge to our national security would be disastrous. Between these two opposing factors, it is necessary for the military supply managers to maintain the maximum state of readiness possible with the means available to them.

(*d*) The Army supply system is maintained in a dynamic state which necessitates that we adopt for our use such innovations as will improve the efficiency of our operations, or reduce the requirements for inventories wherever such can be done without unduly jeopardizing our state of readiness. To this end, the Army has made major changes in its supply operations by the adoption of automatic data processing systems (ADPS) in its supply management, and the use of electrical transmission of data in both its supply operations and supply management.

(1) The use of these capabilities has permitted the concentration of data at one national focal point. The Army has realined its inventory management from a functional basis to a commodity basis, wherein a single commodity manager is responsible for managing all elements and controlling the items assigned to him. Such elements include requirements computation, distribution management, and the procurement direction, cataloging, rebuild, and disposal.

(2) In the distribution field the use of electrical transmission of data is making possible the efficient preparation, transmission and documentation of single line requisitions. This permits the submission of requisitions as the requirement develops and eliminates the functional procedure of cyclical reviews and requisitioning.

(3) Also, in the field of distribution these innovations have made possible the centralization of supply intelligence and supply control within overseas theaters while at the same time keeping stocks dispersed physically at separated storage locations as a measure of security against loss by atomic attacks.

(*e*) The Army is constantly probing for new techniques and innovations which can be used effectively. Many techniques are developed by the ingenuity of the American soldier. These techniques are developed in concept, tested on a small scale (a sort of laboratory exercise), then developed in the form of field testing. The worthwhile features of such tests are adopted for standard use. Such developments have provided:

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(1) The Army field stock control system which simplifies accounting at station levels, and reduces authorized station stockage to fast-moving items.

(2) Single line requisitioning.

(3) The CONEX container as a shipping case for through shipments of consolidations of many small packages. This not only saves much overpacking of containers, but permits direct delivery through to the retail outlet overseas.

(4) The combination of the above operations with the ADPS and electrical means of data transmission has produced a new concept for worldwide distribution of repair parts. This concept is being given its final field testing in the support of the Seventh Army in Europe. The research project name given this test is the modern Army supply system (MASS). To date the test has proven the validity of this concept for repair parts distribution. The individual elements of this test are being installed as basic to the worldwide distribution system for repair parts.

(*f*) During the periods of these tests, and during the subsequent periods of transition from one concept or operating organization and procedure to a new one, the area under transition will experience difficulties which at a given time and place, when observed as an individual circumstance, may appear unwarranted even to the local staff or agency.

(*g*) The visits of the survey and investigations staff to Army logistical installations have brought that staff in contact with many of these problem areas. Some such problems are of temporary duration during the period of transition from an old to a new procedure, others are corrected at the time of detection, while some continue as problems requiring further probing and testing to assure that action to be taken is proper, is not detrimental to our combat effectiveness, and is to the best interest of the Government.

3. ARMY SUPPLY SYSTEM IN EUROPE

A. GENERAL

((1) and (2) deleted for security classification:)

(3) Supply control agencies, well established and operating satisfactorily in Germany, were moved to new locations in France. The trained German labor force was lost completely because United States forces were unable, under diplomatic agreements, to import German nationals to work for the United States in France.

(4) The advent of stock funding and consumer funding as a part of the peacetime operation of our depot systems caused further readjustments.

(5) Recruitment and training programs for indigenous personnel were accelerated. Depot accountability and requisition processing formerly maintained at each depot, was centralized in the supply control agencies. To aline stock records with stock counts, complete physical inventories have been or are being made; ordnance, signal, and medical were completed in December 1957; the remainder are scheduled for completion by July 1, 1958. In order to accomplish this added workload, steps have been taken toward the installation and utilization of automatic data processing equipment. A com-

mittee of senior experienced officers has been established with the mission of devising more effective organization and simplification of systems and procedures in the supply and acounting areas. The commodity manager system is being installed in the supply control agencies as rapidly as is possible.

B. PROBLEM AREA

Supply control agencies.

The supply control agencies were not effectively performing their currently assigned missions.

Army comment

(1) At the time of the committee visit the centralization of stock control and accountability from individual depots to the supply control agencies was in the transition stage. Signal had no centralization of such records until January 8, 1958. Ordnance had partial centralization (i. e., those items involved in the modern army supply system operation). All items, for all services, were centralized as of January 8, 1958. Depots have now been completely relieved of all stock control and accountability functions; depot personnel formerly employed in these activities have been reassigned or released. To date, the centralization of stock control and accountability has resulted in an overall decrease of 831 personnel spaces in theater stock control activities.

(2) Communications Zone Europe was included in the modern army supply system on April 1, 1957. As of that date MASS items were centralized for stock control and accountability, except for Signal. Although responsibility for these functions was transferred to the agencies, no complete physical inventory was accomplished at that time. The movement was limited to the centralization of the stock records. During December 1957, complete physical inventories of depot stocks were taken by Ordnance, Signal, and Medical. Current validity of the records maintained by these supply control agencies, is evidenced by the ability of depots of these services to fill all requisitions within the Army acceptable standard for warehouse issues. Continued accuracy of stock balances should prevail. Other technical services have programed complete inventories and correction of accountable records by July 1, 1958. At that time the transition from individual depot accountability to centralized supply agency accountability will have been completed.

(3) In September 1957 a Department of the Army team, evaluating the modern army supply system in Europe, recognized the inadequacy of supply performance being rendered by the Ordnance Supply Control Agency, and recommended that the Chief of Ordnance send a team of technicians to the Communications Zone Europe to establish a system of operations which would produce the support required. This team was dispatched on January 10, 1958, for a 90-day period. During the meantime and without the benefit of the December physical inventory and the Ordnance team, the Ordnance Supply Control Agency improved its supply support in November and December 1957 to better than 72 percent initial fill on requisitioned items. This supply performance of 72 percent can be compared with 59 percent at the time of the survey and investigation staff visit in August 1957.

By November 1957, this improvement in supply performance had resulted in reducing from 532 to 346 the quantity of vehicles on deadline awaiting parts at the Ordnance Maintenance Center, Western Germany. The latter figure includes 300 vehicles in the maintenance float. The proper use of an accurately provisioned maintenance float will provide for serviceable equipment to be on hand in quantities sufficient to offset daily receipts of unserviceable items. The continued reduction of the quantities of unserviceable equipment on hand at the field maintenance center is anticipated.

C. PROBLEM AREA

Storage conditions in COMZ depots.

Storage practices in COMZ depots deviate from prescribed operating procedures.

Army comments

(1) COMZ command supervision is exercised primarily through subordinate commanders. Staff field visits are made by COMZ general staff personnel. Technical visits are made by respective technical service personnel. In addition, storage conferences are held at COMZ headquarters for the specific purpose of improving storage operations. Through staff inspections, storage operations throughout the United States Army Europe depot system are being policed for conformance to accepted military and good business policies. Deviations must be justified by the depot commander.

(2) The improper practice of an engineer depot showing on-hand quantities on stock and bin cards was during the transition period of establishing centralized supply control agencies. All engineer depots have again been directed to follow the provisions of TM 743–200 in this regard. Staff inspections are policing this action.

(3) For economy in supply and maintenance support, the Army has standardized material handling equipment at the various depots. The forklift truck used at a given installation is planned, after an analysis of the volume of work (for quantity of machines) and distribution of loads by weight (for size of machines). Where the workload does not justify the cost of maintaining 2 or more size machines, the 1 authorized must be capable of handling the maximum load lift necessary. The standardization of a 4,000-pound capacity forklift at a given storage site does require aisles 1 foot wider than would be required for the operation of a 2,000-pound capacity machine. The savings in storage space will not normally justify the duplication of the supply and maintenance support for both a 2,000-pound and a 4,000-pound capacity machine where the total workload could be done by 1 of 4,000-pound capacity.

(4) Because rewarehousing of stocks is accomplished by attrition through issues from old locations and placement of incoming stocks in new locations, the DA has investigated the situation reported at an ordnance depot, presumably Braconne, where tires were observed being removed from covered warehouses to canvas covered shelters in violation of Supply Bulletin 9–43 which states that tires can only be stored in this manner when closed warehouses are not available or in cases of extreme emergency. Our report from United States Army Europe confirms that in this case an emergency did exist. Braconne

was generating covered warehouse space to store 30,000 tons of ordnance class II and IV repair parts to be received from the Mannheim Ordnance Depot, which was being closed out as a United States Army Europe depot. Repair parts are more susceptible to deterioration in canvas-covered shelters than are tires. The stock of tires at this depot is being reduced by normal attrition, MAP programs, and by relocation in accordance with projected plans. Planned reductions of levels for items now in covered warehouses at this location will release covered storage space for returning to warehouse storage those tires authorized for the depot revised levels.

4. EXCESS STOCKS IN SUPPLY SYSTEM INVENTORIES

A. PROBLEM AREA

Army inventories include stocks excess to total Army requirements. The care and preservation of this excess is not only expensive but constitutes a major deterrent to the achievement of the desired logistics goal of providing the maximum support for the combat forces with a minimum of hindrance.

Army comments

(1) The Department of Army concurs generally in the comments pertaining to the statistical data contained in the report; however, the DA does not obtain from these statistics the same conclusions as those summarized by the survey and investigation staff in the report.

(2) The marked increase in the identified excess position is acknowledged. It is a normal process of the Army's current program to rid the supply system of all stocks excess to prescribed retention authority. To accomplish this, stocks held in any of the several operating accounts of the financial accounting system, when determined by requirements studies to be excess to total Army requirements, are transferred to the reporting account titled "Excess Army Stocks." Excess is held in this "clearing account" while being screened for use by other DOD or Government agencies, or MAP requirements. From this the excesses are shipped to requiring agencies, or to property disposal officers.

(3) During the period fiscal year 1950 through fiscal year 1957, the DA has acted in the dual capacity of supporting World War II type equipment being phased out of United States Army units and supporting like equipment under the military aid program. Except for a small quantity of special purpose vehicles, this equipment has been removed from United States Army units. The retention of stocks now in Army excess inventories, especially repair parts, are primarily being held to support equipment provided to foreign countries under the military aid program. The majority of these parts were provided from retained World War II stocks.

(Classified information deleted.)

(4) The statement that MASS contributed to the buildup of excesses in Europe appears to relate too much to the fact that during the field testing of Project MASS, the Seventh Army in Europe was supported by direct delivery from the United States of America. Stocks in COMZ depots in Europe were temporarily bypassed as a planned part of the test. As COMZ becomes tied in with the MASS proce-

dures, Seventh Army MASS requisitions are scheduled for processing through the COMZ for the purpose of drawing down these long stocks. The statement that 64 percent of the stocks of secondary items in COMZ depots is excess to current COMZ requirements was at that time factual for the Ordnance and Signal depots. However, since Seventh Army MASS requisitions are again being processed against the COMZ accounts, the stocks temporarily bypassed are now part of the theater operating stocks. The major factors contributing to the development of excesses on hand in the United States Army Europe stocks were obsolescence of equipment, recomputation of war reserves, and changes in the end item density as a result of modernization of organizations and equipment.

(5) The statement that a substantial portion of the Army's unserviceable inventory will not be required for rebuild to meet requirements is reasonable. At the time of the investigation four major groups of stocks were carried under the unserviceable reporting category:

(*a*) Stocks awaiting rebuild for which firm future years' Army requirements exist and for which rebuild funds are available or for which fund allotments can be expected.

(*b*) Unserviceable economically reparable stocks for which future rebuild allocations are questionable.

(*c*) Stocks held in anticipation of repair for issue to meet MAP future years' requirements.

(*d*) Unserviceable items recently received from using units and which are awaiting classification for retention, rebuild, or disposition.

(6) In the past years the Army had found it advisable to hold certain stocks in long supply under the categories of economic and contingency retention. These were stocks, excess to current mobilization requirements, retained for peacetime consumption as being more economical than future replenishment by procurement. With the ever attendant threat of brush-fire wars and the future demands of the military assistance program facing them, Army commodity managers were reluctant to pare stocks to the absolute levels permissible by accepting a maximum calculated risk. Based on the decisions discussed in paragraph 7 below, a policy directive was issued to the technical services on February 12, 1958, which will reduce essential items to a maximum 2 years of economic retention. All other stocks, formerly retained in this category and in the category titled "Contingency Retention," will be disposed of as part of Operation Elimex described below.

(7) Operation Elimex:

(*a*) The Army agrees that obsolete and excess stocks are a deterrent to good logistics management. The very aggressive actions being taken by the Army on a worldwide basis to reduce inventory to authorized retention status can best be explained by discussing the program designed to accomplish this task.

(*b*) The program is titled: "Reduction or Elimination of Unserviceable and Excess Materiel—Short Title: Operation Elimex." Beginning in August 1957, and being formally implemented on January 10, 1958, the Army launched this operation with the express purpose of eliminating all stocks excess to authorized retention quantities.

(*c*) Operation Elimex provides the policies, procedures and cri-

teria for the complete physical disposal by June 1959, of all stocks in Army worldwide inventory that are excess to computed requirements and published retention authority. Interim target dates are provided for the final determination of total Army requirements and in addition thereto the quantities to be retained under the new criteria for determining economic retention of stocks.

(*d*) Gross requirements to supply equipment deficiencies in approved MAP country force goals will be screened against excess Army stocks and, if approved for retention by the Assistant Secretary of Defense for International Affairs (ASD (ISA)) will be stored in Army depots, at MAP expense. Estimates of anticipated MAP repair parts requirements through fiscal year 1962 are being developed and excess stocks available to meet the demand, upon approval of the ASD (ISA), will be retained in Army depots, as MAP property. Storage expense will likewise be charged to the MAP program. Stocks thus retained will be utilized to meet future years' requirements as they are formulated under the aid programs.

(*e*) Under Operation Elimex, the Army has scheduled the disposition of $4.4 billion of excess personal property by June 30, 1959. The screening and disposition of excesses is a continuous process designed to purge the Army stocks of excess items without disposing of those which can be economically retained for known or planned requirements.

(*f*) An important early phase of Operation Elimex is that devoted to determination of which items and in what quantities should stocks be retained for application against MAP future requirements. This determination cannot be made on a detailed basis, however, sufficient experience has been accrued to make possible reasonable estimations which can be used for practical realinement of the Army's inventory.

5. REQUIREMENTS DETERMINATIONS

A. GENERAL

(1) The determination of materiel requirements is the genesis of all major logistic functions; it is, in actuality, the very basis upon which the Army determines and plans its capability to wage warfare. The combat effectiveness of the Army is measured not only in magnitudes of combat effective manpower but also in magnitude of combat effective equipment. These two essential elements must be in balance one with the other.

(2) The accuracy of our materiel requirements computations is controlled primarily by the assumptions upon which the calculations are based.

(3) The strategic concepts for general and limited war, as evolved by the Department of Defense and the Joint Chiefs of Staff, form the basis for overall war plans. The Army portion of such plans constitutes the basis for the computation of Army requirements for materiel.

(4) Once the war plans are established, mathematically computed requirements can be made, and are required to be made, based upon these plans. As strategic concepts change, as war plans change, as forces are reorganized to conform with the new concepts and to best

utilize new weapons, requirements for material change, and the computation of requirements becomes more complex.

(5) The amount of detail needed in such computations is that which will depict requirements categorically by claimant programs so that available assets may be applied in sequence of priority in order to isolate deficiencies by claimant programs for purposes of supply management and budgetary defense. The amount of detail currently required in our supply control studies is necessary to effectively manage our inventory and to provide the detailed justification necessary for budgetary explanations to Department of Defense, the Bureau of the Budget, and the Congress and for defending requests submitted for the apportionment of funds. Requirements computations are the foundation for logistical actions of procurement, redistribution, storage, issue, maintenance, retention, and disposal.

B. PROBLEM AREA

Requirements computations—principal items:

Supply control studies for computation of requirements for principal items contain excessive detail and give an impression of exactness not inherent in the data used.

Army comments

(1) Attempts are continuously being made to eliminate from our requirements computations all but essential details. Considerable progress has been accomplished in this direction. Many refinements have been made through the efforts of civilian research organizations such as Melpar, Operation Research Organization, and Harbridge House. Efforts are continuing.

(2) The amount of detail and time required is proportionate to the importance and criticality of the item. In the Army there are approximately 400 major items studied in detail twice a year. Another 2,600 are computed in the same detail, on the same format, but do not receive the same degree of study and review at Department of the Army and Department of Defense level.

(3) Realistic replacement factors are an essential element in projecting our future materiel requirements. These factors also change as the items are modified, improved or replaced, and as new techniques for end item employment and maintenance are developed. To assume that the future life of an item will duplicate its life in the past would be in error. Experience data are important and must be considered, however, past consumption cannot be the sole criteria. Replacement factors are under continuous review.

(4) The basis for programing for procurement of an item is the relationship of requirements to assets. Inaccuracies in the reported asset data ensue from inaccurate identification of the reportable item, clerical errors and inaccurate inventories. The Army has made the supply status reporting by units a matter of command action; the Inspectors General will make the preparation and accuracy of these reports a matter of direct inspection. The Adjutant General is now studying the feasibility of installing in the reporting format a balancing procedure to show gains and losses. A project group has been organized within Department of the Army to evaluate the possibilities of consolidating equipment status reporting with other parallel

reports originating in the field (maintenance densities, supply support) so that the reporting system will be of greater use as a ready reference for command use of field commanders.

(5) With reference to the procurement of items in excess of requirements, the towed 155-milimeter howitzer and the M–65 telescope are examples of changing requirements based upon changes in concept, war plans and divisional organizations. Requirements for both of these items decreased as a result of the new war plan and the pentomic reorganization of the Army.

C. PROBLEM AREA

Requirement computations, secondary items.

The extent of utilization of supply planning factors for computing requirements for secondary items is inconsistent between national inventory control points; the primary weakness in the Army supply operations involves the reliability of the reporting system.

Army comment

(1) The publication of AR 710–45, dated July 23, 1956, placed all technical services on a uniform basis for computation of requirements for minor secondary items and repair parts. This regulation required that all items having annual issues in excess of $10,000 be computed on the major overseas depot method. In application of this method, an oversea command must compute its requirement for these items on an item basis, and compare the requirement with depot assets within the command, before forecasting a net requirement on continental United States depots. This requires the reporting of demands, and/or issues, and assets on these high-dollar-value items. Although such reporting had previously been undertaken to a limited degree on other than principal items, this standardization of procedures necessitated the establishment of a much broader item coverage in the reporting system than previously existed. Since the publication of AR 710–45, dated July 23, 1956, technical services have taken action to publish implementing directives to obtain the required information. Of necessity this has taken some time to accomplish, and the initial reports received have often been erroneous in some respects. This is recognized at the technical service level, and action is being taken to continually police and improve the reporting on these items. Action is being taken concurrently at Department of the Army staff level to insure that this is accomplished.

(2) A similar reporting system has been in operation in the continental United States for some time. In general, the system is much improved. Continuous policing is required to refine the difficult areas. The survey and investigation staff found evidence of poor demand reporting at the Ordnance Weapons Command. This deficiency also was found by an Army inspection team and action was taken to correct the matter.

(3) Quantities required for meeting the in-transit requirements (pipelines) authorized in Army regulations and directives are utilized by all national inventory control points on supply control studies where indicated. As supply improvement programs reduce the time in transit for shipments, such reductions will be incorporated into the requirements computations. The change will affect only that quantity

of items represented by reductions in requirements for items to cover the time physical items are in transit from depots to customers. Project MASS offers improvement in this area. As soon as savings in this field can be firmly established, AR 710–45 will be changed to reflect such improvements.

Part III. Surplus

1. Background and Magnitude of the Surplus Disposal Program

(*a*) World War II, the Korean war, and the radical technological changes in implements and concepts of war have resulted in the generation of large quantities of surplus and foreign excess personal property. The magnitude of the program is demonstrated by the statistics shown in the report relating to dollar acquisition costs of items disposed of during the past several years and the quantity anticipated to be disposed of during the current fiscal year.

(*b*) For bookkeeping purposes, excess and surplus property is accounted for in terms of acquisition cost. No reduction is made for depreciation.

(*c*) The major portion of Army surplus property has been worn out through normal usage, has become uneconomical to repair, or has been replaced due to technological advances. Surplus also includes combat material for which there is little or no commercial demand and much of which requires demilitarization prior to sale.

(*d*) The Department of the Army has placed, and continues to place, sufficient emphasis on the surplus disposal program to assure its execution with maximum efficiency and effectiveness. The attention being given this program by major commanders in the field is illustrated by the fiscal year 1957 accomplishments of our Army European Command.

(Classified information deleted.)

(*e*) In order to execute the disposal program more efficiently and effectively, our European command has instituted the following management improvements during the past 18 months:

(1) An international bidders' list was established at one central location in Germany. This bidders' list is for use of each selling activity of the United States Armed Forces in Germany, France, Italy, and the Benelux countries in attempting to reach the widest possible market.

(2) A cleared bidders' list was established at a central location in Germany. This list, representing actual and potential bidders having a positive integrity and reliability check, enable property disposal officers to make awards with a minimum of delay. (The integrity and reliability check is one of the controls used to prevent the diversion of foreign excess materials to the Sino-Soviet Bloc).

(3) Publication of all Armed Forces sale offerings was centralized. This resulted in administrative savings, better merchandising, standardized and more attractive sale offerings, and consequently a larger and more active list of bidders.

(4) A property disposal management course was established for personnel in the Armed Forces engaged in the sale of foreign excess property. Approximately 100 students have already attended this course including personnel from the Armed Forces in Germany, France, Italy, Saudi Arabia, Spain, England, and North Africa.

(5) An Armed Forces manual was published, outlining policies and procedures for declaring excesses, screening, utilization, and disposal of excess and foreign excess. This manual gives a detailed guidance to the operating personnel and is applicable to property located in Germany, France, Italy, and the Benelux countries.

(6) A monthly disposal newsletter is published. This is used as a media to keep disposal officers informed as to proper marketing of products, market trends, average prices being received, and the exchange of merchandising techniques. All disposal activities contribute information for publication.

(7) Methods of sale have been expanded and now include all of the authorized types of sale. The first auction sale will be held during the month of April 1958.

(8) Photographs are now used in sale offerings. This serves to make the offerings more attractive and assists the potential buyer.

(*f*) The improvements mentioned above are illustrative of the emphasis being placed on this very important program. These improvements are not limited to the European area. Efforts are made worldwide to improve the program wherever possible in order that we obtain maximum utilization of our excesses and the best possible monetary returns to the United States Treasury for the property we sell.

2. FACTORS CAUSING THE GENERATION OF SURPLUS

DEVELOPMENT OF REQUIREMENTS FOR SPARE PARTS

A major reason for the large amount of excesses is that during World War II and the Korean war it was necessary to buy spare parts for new vehicles and equipment without sufficient time to develop combat mortality rates in these parts. Consequently, manufacturers' estimates were used and tended to err on the high side. The report recommends that new contracts for vehicles require manufacturers' to furnish a minimum of spare parts with the end item and with further provision that additional parts be furnished as required in the future.

Army comments

The process of providing spare parts concurrently with new end items is called provisioning. Army provisioning procedures are contained in Army regulations. Following such procedures, concurrent spares are procured only once; i. e., as the new end items enter the supply system the initial issue of parts, peculiar to the new end item, are procured with the end item. Admittedly, manufacturers' estimates are usually high. However, they are not always used. The estimate of the maintenance activity of the technical service concerned is utilized. It is extremely doubtful if the current use of manufacturers' estimates of spare-parts requirements is a major cause for generating Army excesses. As for the recommendation that procure-

ment contracts for new items carry a provision that additional repair parts will be provided as required, such a provision would preclude future procurement of parts from other than the manufacturer of the original equipment. Such an arrangement would establish the supplier of an end item as a middle man for the resupply of repair parts for those components for which he subcontracted in production of end items.

COORDINATION OF DISPOSAL OF END ITEMS AND REPAIR PARTS

The relation of spare to end items is in imbalance throughout the services. There is a lack of coordination of end item and related spare parts information during disposal between military departments and other Government agencies. One of the major causes of the unavailability of such information is that the end item is under the cognizance of a military supply control point in one geographical area while the spare parts are under the cognizance of another supply control point in a different geographical area. This same lack of information, of course, lowers the prices bid by surplus dealers when the end item becomes surplus and is put up for sale by the Government.

Army comments

The determination of quantities of stock that should be disposed of is accomplished in the continental United States by completion of the DA form 1794 following procedures contained in AR 710–45 and application of the retention criteria established in AR 700–13. Completion of this supply control study form (DA form 1794) automatically coordinates the disposal of repair parts with related end items as the entire computation is based on the forecasted in-use populations of the end item in future periods. Thus, if an end item is being phased out of the system, completion of the DA form 1794 will automatically require declaration of related repair parts as excess. The same type procedure is followed at overseas supply-control points. Thus, the Department of the Army feels that coordinated action on disposal of end items and repair parts is being accomplished. It would appear desirable to make information regarding the availability of spares known to servicing agencies at the time end items are declared excess. It would also appear advantageous for a buyer to have similar knowledge. There is a question, however, as to whether a procedure could be developed which would be administratively feasible. The existence within the Army of separate inventory-control points for end items and repair parts is not considered as either a contributing factor nor an obstacle to the solution of this problem. There is no reason for assuming that both end items and repair parts will normally become surplus and available for disposal at the same geographical area.

3. UTILIZATION OF EXCESS PROPERTY WITHIN THE MILITARY SERVICES

METHODS AND EXTENT OF UTILIZATION (NONREPORTABLE PROPERTY)

(1) It was apparent to the staff members that, where the disposal officers or supervisors made conscientious efforts to use certain devices, much greater local utilization was achieved than at similar installations visited where only superficial attention, or none at all, was given to this important area of responsibility.

(2) Screening of nonreportable property should be made mandatory, rather than permissive, for all disposal activities to promote and facilitate the utilization of nonreportable usable excess to the fullest practicable extent through established procedures and guidelines that are uniform for all military services. The interservice supply support program does not achieve this objective.

Army comments

(1) This policy is not mandatory because there is a point which is reached in the screening processes where the cost negates the benefits received. Property which property disposal officers have found to show little or no utilization should not be screened. This only serves to increase the cost of disposal and provides no beneficial results. The Army once had a mandatory screening policy. It was changed to a permissive one because experience demonstrated that Army and oversea commanders should screen nonreportable property only to the extent that economical utilization was obtainable. A uniform DOD screening policy is probably desirable, but it is believed that any such policy should be sufficiently flexible to permit the military services to adjust procedures to suit varying conditions.

(2) the term "nonreportable property" may be misinterpreted to imply that these items are not screened prior to transfer to property-disposal actions. These items are screened against depot requirements for the item unless a predetermination has been made that the items will not be returned to depot stocks.

LACK OF KNOWLEDGE OF AVAILABLE EXCESSES

The principal deterrent in achieving more utilization of excess property is the fact that in the operating level the people who are doing the requisitioning seldom, if ever, see the current and complete listings of available property.

Army comments

(1) The Department of the Army concurs in the principle of maximum utilization of excess property, provided that such utilization is not detrimental to established logistics programs.

(2) Furnishing the requisitioning level with "current and complete listing of available (excess) property," and permitting uncon-

trolled requisitioning against those lists, could be highly disruptive of the following established programs:

(*a*) The geographical and make and model standardization of end items. By such standardization the Department of the Army effects maximum economies in repair parts and maintenance support functions.

(*b*) Attrition of older makes and models from the supply system. Uncontrolled requisitioning of excess, obsolete, and limited standard items would serve to continue these items in the supply system after the date of their programed disposition.

(*c*) Establishment of authorized stockage lists of secondary items and repair parts. Authorized stockage lists, i. e., the items for which constant demand exists for repair parts and minor secondary items, are established on the basis of station demands of supported standard items. Through this system the Army is able to stock the standard and repetitive demand items in the supporting depots. Allowing nonstockage list items that are often obsolescent or nonstandard to the system, or area, would require increased stockage lists and the retention of more items than are necessary in the supply system.

(3) The costs of publishing, revising, and maintaining such excess listings on an up-to-date basis with the thousands of change sheets and customers involved would be highly prohibitive.

(4) National inventory-control points maintain lists of substitute items which are suitable for issue without jeopardizing the programs enumerated above. High incidence of the utilization of stocks on those listing is in evidence in the Army supply system. At station level, it is the practice of the Army, in United States and overseas, to utilize command excess at Army level prior to reporting them to the depot system as excess to the command. This includes items which are locally procured at the station or command level and not stocked in the depot system. It is the practice in oversea commands, where a considerable amount of minor construction is accomplished by our own troops, to design as far as possible against existing class IV construction materials available in the command depots. The recent trend in the oversea commands to centralize accountability and stock availability and stock availability records in Army or theater inventory-control points is proving to be a considerable benefit in this regard.

OVERHAUL AND REBUILD FOR STOCK

Many cases were noted where funds were expended to recondition property, place it in the supply system, and later dispose of it as surplus. Huge amounts of such property are continuing to be reconditioned at considerable expense to the Government and stored at additional expense, only later to be disposed of as surplus.

Army comments

The Department of the Army, while aware of the situation reported cannot agree that huge amounts of property are continuing to be reconditioned at considerable expense, only to be disposed of later On the contrary, based on several studies into the management of material, the Army has progressively adopted procedures to preclude

this situation from occurring. The most significant is the Army's 5-year materiel program. This program provides for the comprehensive planning of all major items in the Army supply system, including projected requirements, procurements, and forecasted asset position, predicted disposals, and future reconditioning programs expressed in unit quantities during the next 5-year period. Today, under its provisions, items to be economically reconditioned can only be scheduled if a shortage in assets is predicted within the 5-year period and if delivery of the successor model is sufficiently in the future to authorize the cost of reconditioning. A few exceptions are made from time to time to secure a better worldwide balance on inventories, but only in cases of high-priority combat items.

LOCAL-PURCHASE PROGRAMS

(1) The local-purchase programs of the military services contribute to the generation of excess property, especially in the "nonreportable" categories.

(2) The local-purchase program goes far beyond anything that was ever contemplated by its originators, because local purchase is not confined to purchases in the local trade area.

(3) The local-purchase programs developed and utilized by the services should be coordinated by the Secretary of Defense with the view of achieving efficient and economical operations in this area.

Army comments

(1) It is not believed that the local-purchase program of the Army contributes to any significant degree to the generation of excess property, especially in the "nonreportable" categories. It is the policy of the Army to authorize procurement of a commercial-type item whenever it is considered more practicable and economical, taking into consideration the overall dollar value of the Army requirement. Normally, no dollar limitation is placed on noncataloged items, and they are not normally stocked at posts. Since stockage objectives at posts have been reduced to the minimum, and dollar-control limitations have been placed on items that may be procured locally, generation of excesses will only be due to such unpredictable circumstances as unexpected change in troop strength.

(2) The Army does not believe that the local-purchase program goes beyond anything that was contemplated by its originators, because local purchase is not confined to purchases in the local trade area. The Army agrees in the principle that local purchase should be confined to the local trade area. The local-purchase program was originally designed to eliminate commercial-type items from the depot supply system, for the purpose of reducing the costs of administration, storage, issue, and transportation. "Local" purchase is made by the using activity and not related to the location of the vendor. This is especially applicable when using activities are required to purchase from mandatory Federal supply schedule contractors, or GSA store depots.

(3) The Army agrees that the local-purchase programs developed and utilized by the services should be based on policy direction established by the Secretary of Defense.

(4) When items are assigned to one military department for procurement and the requiring department codes an item local purchases as the normal means of supply, the items may be purchased locally without dollar limitation. Where the requirements of an installation are extensive, this could result in large dollar procurements beyond the capacity of the local dealer to supply (ASPR 4–203.6). It is the policy of the Department of the Army to:

(*a*) Only authorize local purchase of items assigned to other departments for procurement when the dollar value of the requirement does not exceed $1,000.

(*b*) Authorize local purchase of commercial-type items on mandatory Federal supply schedule contracts, regardless of the location of the contractor when overall Army requirements (dollarwise) do not justify storage and issue in the depot system.

(*c*) Authorize local purchase of commercial-type items which are readily available in the local trade area.

SURPLUS GENERATION RESULTING FROM INVENTORY POLICY AND PROCEDURES

The type of inventories varied between the perpetual and the shutdown inventory. It is the staff's view that the perpetual inventory is the more accurate and economical method of inventorying, and will ultimately contribute less to the generation of excess and surplus than the shutdown inventory. Rossford Ordnance Depot was cited as an example using the shutdown inventory system, and the comment is made that while 20-percent discrepancies were noted, they were shown only as monetary adjustments on 00 Form 1712 Report of Inventory. This was held to be misleading.

Army comments

(1) The Army uses both shutdown and cycle inventories, since either may be more effective and economical under varying conditions. The shutdown inventory used by the Army does not attempt to physically count all stocks during the period of shutdown. A precount phase begins prior to the inventory cutoff date, the purpose of the shutdown being to rationalize the inventory precount with stock record cards. Actual counting during shutdown is limited to that required to assure that differences between inventory and stock record balances are based upon an accurate inventory count, i. e., are limited to recounting. Where discrepancies are noted in the recorded balance, a recount is required to forestall future warehouse refusals, even though the dollar value of the stock involved is less than $10, a sum which of itself would not justify such action.

(2) On August 6, 1957, the Department of the Army published a revised regulation governing procedures for the inventorying of depot stocks. These regulations are applicable worldwide, and are adapted for the use of machine accounting procedures. The regulation requires that inventories be taken annually except for Army Medical Service vault stocks which are inventoried each month, and for slow-moving or inexpensive stocks which may be inventoried at intervals of up to 3 years.

(3) In October 1957, the Ordnance Corps conducted an inventory of continental United States stocks under the new regulations. In

addition to the procedures required, Ordnance tested and is now evaluating a procedure which applies statistical control procedures to inventory taking. These assure accuracy by a technique similar to that used in assuring product quality in a manufacturing operation. Preliminary data indicate that test results are proving highly satisfactory.

STANDARDIZATION OF DESIGN AND SPECIFICATION

Standardization in designs and specification of items can materially reduce generation of surplus and excesses.

Army comments

Changes in design and specifications, as a result of standardization action, predominately result in reduction of numbers and sizes of items designated as standard for new procurement. Those items designated as not standard for procurement are retained as assets, and eliminated from the supply system through attrition. In a few instances, dependent on dollar value versus utility, the items are declared surplus or excess.

ITEM SUBSTITUTION AND UNREALISTIC REIMBURSEMENT REGULATIONS

Current unrealistic reimbursement requirements enhance the failure to substitute and exchange items between the Army technical services.

Army comments

DOD Directive 7420.1, December 19, 1956, subject: Regulations Governing Stock Fund Operations, states that no materials, supplies and equipment held under a departmental stock fund or division thereof may be issued or transferred unless the fund is reimbursed, except as may be otherwise authorized by the regulations. The exceptions to this statement do not authorize an exchange between units and the property disposal officer of supplies and equipment.

It is desirable to maintain supplies and equipment of using elements in the best practicable state of serviceability. To dispose of material at approximately 10 percent of standard price through disposal channels, while using units are limited by consumer funds and are required to purchase at 100 percent of standard price does not promote the best utilization of supplies and materials in the military establishment.

A recommendation is being staffed within Department of Army to permit the exchange of like items between using units and the property disposal officer without reimbursement in these instances when items being disposed of are in a better condition of serviceability than those being used by the units.

EQUIPMENT WITH SHORT-SHELF-LIFE

(1) Short-shelf-life items should not be placed on the local purchase list until present depot stocks of the items have been depleted. (Item referred to in depot stock is tires 600 x 16, 6 ply rayon).

(2) Steps should be taken to properly mark and label short-shelf-life items so as to secure greatest utilization based on age. (Item referred to in depot stock is tires in general.)

(3) Consideration should be given to having the manufacturer carry and rotate a depot stockage for short-shelf-life items such as photographic film and paper.

Army comments

(1) The Army generally agrees to the recommendation that items should not be placed on the local purchase lists until depot stocks are depleted. (Item referred to in depot stock is tires 600 x 16, 6 ply rayon.)

(*a*) This policy is published and followed by the Army in AR 715–30, except when the procurement lead time of manufacturers cannot meet the order and shipping time required to fill overseas requirements. A minimum stock is maintained in port backup depots to meet these requirements.

(2) The Army agrees that short-shelf-life items should be properly marked and labeled so as to secure greatest utilization based on age. The policy, as required by the Department of Defense for rotation of stocks is based on the storage principle of "first in, first out," and is published in Joint Army, Navy, Air Force, and Marine Corps Storage and Materials Handling Manual. The Chiefs of Technical Services implement this policy for those items for which they are responsible.

(*a*) The Chief of Ordnance has responsibility for tires (the item in question in the report) and has implemented the policy as follows:

1. Depots are required to store short-life items in such a manner as to permit selection of the oldest stocks first, as determined from data on the exterior pack. Placecards are required to be placed on the material to show which lots are to be issued first.

2. Depots, posts, camps, and stations have been advised that rubber tires can only be stored for as long as 3 years without appreciable deterioration and are directed to insure that old stocks are issued first.

(3) The Army agrees that consideration should be given to having the manufacturer carry and rotate a depot stockage for short-shelf-life items. (Item referred to is photographic film and paper.) This principle is followed by the Department of the Army for short-shelf-life commercial type items. Under single department assignments, photographic film and paper have been assigned to the Department of the Air Force for procurement, therefore, the Air Force is required to make this determination.

MULTIPLE LAYERS OF STOCK RETENTION LEVELS

Materiel required for special projects at the Army Signal Engineering Laboratories, Fort Monmouth, N. J., is ordered far in advance of actual need with no records found to indicate value or type of property held for the projects. Inventory is estimated to be as high as $150 million and involve 30,000 to 35,000 items.

Army comments

This problem is under investigation by the Department of the Army. No comment is submitted at this time.

4. DISPOSAL OF SURPLUS PROPERTY

ARMY POLICY ON FUNCTIONAL RESPONSIBILITIES FOR EXCESS AND SURPLUS

The Army's policy on property utilization and disposal generally conforms to that prescribed by DOD. However, its procedures for handling excess property differ from the Navy's and those of the Air Force in that accountability and screening is the responsibility of each of the seven technical services. Navy and Air Force disposal units handle excess as well as surplus property while Army disposal units get jurisdiction over property only after it becomes surplus. The Army's system of having excess property handled by seven technical services should be given a critical analysis with due consideration for the merits and advantages that may accrue to the Army through the adoption of the system used by the Navy and Air Force. Army disposal units are manned predominantly by Quartermaster Corps personnel. It is believed that a better overall job would result if the disposal personnel and disposal activities were disassociated from any one technical service and made a part of the Supply and Logistics Division.

Army comments

(1) The Army cannot visualize benefits which would result from the transfer of the function of reporting excess from the station or depot accountable property officers to the property disposal officers. On the contrary, it would serve to generate additional administrative procedures and result in unnecessary handling of property. Property which is excess to a given installation is subject to redistribution within the Department of Defense, return to depot stock, or transfer to other Federal agencies. Under the proposal, property which is not determined to be surplus, would be handled twice, both administratively and physically. Also, inherent in this system would be the danger of comingling excess with surplus and disposing of property which is not authorized for disposal. The Army will study this suggestion.

(2) The major portion of the officer personnel in the disposal program are from the Quartermaster Corps. However, by policy directive, disposal officers are organizationally under the cognizance of commanding officers. In the Army, this responsibility, in most instances, has been deligated to Supply and Logistics Divisions and not to a technical service. Historically, the Quartermaster Corps was responsible for the disposal only of property in salvagable condition. This accounts for the predominance of Quartermaster personnel in the property disposal program.

METHODS OF DISPOSAL OF SURPLUS PROPERTY (STATE DEPARTMENT CLEARANCES)

The Department of State clearance function is not handled uniformly by the services. The Navy and Air Force deal directly with

Department of State officials in the local embassies, whereas the Army handles the clearance through its Washington, D. C., headquarters. The Army system causes undue delay with no noticeable evidence of advantage. The staff feels that the Army should give serious consideration to the adoption of the more expeditious procedure used by the Navy and Air Force.

Army comments

All proposed sales of foreign excess property, Army, Navy, and Air Force, in excess of $250,000 acquisition cost ($1 million for Japan) must be referred to the State Department in Washington for foreign policy guidance. This is State Department policy. Therefore, regardless of which channels are used, the proposed sales eventually come to Washington. The Army has tried both methods and it was proven that the procedure presently employed by the Army is the most expeditious. This is principally due to the fact that most foreign-service posts are not adequately staffed to handle this administrative burden. The Army, therefore, does not concur that the adoption of the Air Force and Navy procedures of obtaining State Department clearances for proposed sales of foreign excess property would expedite clearance for sales of Army surplus.

METHODS OF DISPOSAL OF SURPLUS PROPERTY (DONATIONS)

The donation program brings about a situation with regard to fair value reimbursement that is somewhat inconsistent with the principle that proclaims Federal Government agencies' needs for property to be paramount. Military departments and other Government agencies because of temporary lack of funds precluding payment of "fair value" requested for such property, do not obtain the benefit of utilizing the property available, and it becomes eligible for donation outside the Government.

Army comments

The committee comment appears to be directed at non-stock-fund property. This comment, therefore, is limited to such property. It is believed that far greater utilization of Department of Defense excess would be realized if the obstacle of requiring fair value reimbursement was modified or removed. Certainly, there have been numerous instances where other Federal agencies desirous of obtaining Department of Defense excess could not do so because of insufficient funds. Reimbursement is not required between military services for non-stock-fund property except for costs of handling and transportation. A more liberal policy on transfer reimbursements or possibly the elimination of the requirement entirely would increase utilization of Department of Defense excess personal property.

METHODS OF DISPOSAL OF SURPLUS PROPERTY (AUCTION SALES)

Auction sales are proper for use in disposing of large quantities of surplus property having wide commercial appeal. This form of sale requires extensive preparation and organization to assure success.

The quality of auctioneer services is highly relevant to the degree of success of any auction. The Army has two auctioneers on its payroll and all Army auctions are conducted by these employees. This procedure has proven to be satisfactory insofar as the services of the auctioneers are concerned. This type of sale, because of the high costs involved, should be used, however, only when the circumstances overwhelmingly favor its use. It is felt that the merits of auctions for Government sales have been overemphasized.

Army comments

This method of sale has not been overemphasized in the Army. It is not felt however, that it should be deemphasized as a means of selling our surplus property. The auction has a rightful place in the merchandising program and if used properly will produce beneficial results. The cost of conducting auction sales in the Army, in most instances, is not in excess of costs incurred in the conduct of other methods of sale. Normally, the largest expense of an auction is the auctioneer's commission. The Army has eliminated this expense by using two Army employees, excellently qualified as auctioneers, to "cry" sales and assist in their preparation. The services of these two employees have also been made available to the Navy and Air Force. Army auctions, during the past year, have been limited to sales of property with an acquisition cost of $1 million or less. If the occasion should arise where an auction sale in excess of $1 million would be advantageous, use of professional auctioneers will be considered. The auction method of sale should continue to be utilized when certain factors conducive to a successful auction are prevalent. This is, when there is a sufficient accumulation of a variety of highly desirable commercial-type property.

METHODS OF DISPOSAL OF SURPLUS PROPERTY (SPOT BIDS)

The spot-bid-sales method is authorized for use to expeditiously sell usable property having commercial demand. It combines features of auction sales and sealed-bid sales such as—

(1) Shortened sales period.
(2) Condensed descriptions.
(3) Simplified paperwork.
(4) Deposits not required.

These sales, also called site sales are intended to attract local buyers, although others are given an opportunity to participate. Reviews made at installations indicated that such sales are less expensive to administer, and faster in moving property, with good buyer response and recovery rate. Use of spot-bid sales simultaneously with other types of sales appears to be worthy of further application. The staff recommends that regulations regarding spot-bid sales be suitably revised, issued, and disseminated so that greater use of this type of sale will be made.

Army comments

The Army has, during the past 2 years, considerably expanded the use of the spot-bid method of sale and the results have been extremely satisfactory. The principal advantages of this method of sale are:

(1) Administrative procedures are relatively simple, causing a reduction in sales expense.

(2) Surplus buyers are particularly responsive inasmuch as no bid deposits are required until high bidder is determined. This feature enables the buyers to retain their available cash for immediate use on other Government sales. This, of course, contributes to a more competitive atmosphere which is the best assurance that the highest monetary return will be realized. The Army concurs that the spot-bid method of sale is an excellent medium and should be utilized when circumstances are conducive to such sales. Current regulations governing this method of sale will be reviewed and modified if considered necessary.

METHODS OF DISPOSAL OF SURPLUS PROPERTY (MERCHANDIZING TECHNIQUES)

The staff's inquiry at some of the installations visited revealed a need for greater attention to general merchandising principles and sales techniques. Catalog preparation ranged from excellent to poor. There are several ways in which the catalogs can be improved. It has already been suggested that the prolog be kept to a minimum. Wider use should be made of photographs, particularly of high-value items. Homogenous items should be grouped so as to attract specialized buyers, and quantities offered in lots should be kept within reasonable limits so as to afford the small buyer an opportunity to bid. The staff's review of sales invitations and the many divergent types of sales catalogs showed deficiencies in identification and description. The staff noted a tendency to group too many items of unlike nature with the description "a lot of miscellaneous items." A considerable number of items were noted in this type of lotting which if adequately described and offered for sale as items would have increased the returns to the Government. There is obviously need for instruction in lotting and description in keeping with the quantity and nature of items being sold.

Army comments

The Army has made excellent progress in improving merchandising techniques used in surplus sales. These improvements can be attributed primarily to the following:

(1) Conducting a property-disposal course at the Logistics Management Center, Ft. Lee, on a regular periodic basis. All property-disposal officers will eventually have attended this course. (The Army in Europe and Japan are also conducting instruction courses.)

(2) Annual property-disposal conferences are held, where there is an exchange of merchandising ideas.

(3) The Army Merchandising Advisory Council, comprised of executives from the largest retail operations in the country, has contributed substantially toward the improvement of sales techniques.

(4) By policy directive, sales of material by the lot have been reduced to a minimum. Retail sales have been expanded in order to reduce the number of items sold as miscellaneous items.

(5) By policy directive, major commanders are required to individually review a minimum of 25 percent of usable property sales

offerings, issued by activities under their jurisdiction. The purpose of this review is to determine compliance with directives and, more specifically, the adequacy of sales techniques used. In this connection, a check list has been issued to major commanders for this purpose.

(6) Use of photographic illustrations in sale brochures.

(7) Use of attractive cover sheets for sale brochures.

(8) More attractive sale offerings by condensing these offerings into pocket-size booklet form.

METHODS OF DISPOSAL OF SURPLUS PROPERTY (ADVERTISING TECHNIQUES)

Utilization of newspapers, radio, and television for advertising sales of surplus property is limited. Disposal officers indicated a lack of knowledge regarding the regulations and were therefore reluctant to use them. Wider use of these means for advertising purposes appears to be desirable. Guidelines pertaining to their utilization should be prepared and disseminated to proper service operating levels.

Army comments

Paid advertisements for procurement, sales, or any other purpose, is used only when deemed necessary to secure effective competition. Sales of surplus property are conducted by property-disposal officers acting as contracting officers for sales. Contracting officers for procurement or sales are governed by the Armed Services Procurement Regulations and the Army Procurement Procedures. Sufficient guidelines are prescribed therein for utilizing paid advertisement for either procurement or sales. The Armed Services Procurement Regulations prescribe the method of obtaining free advertisements. Free advertising must be used to the maximum extent possible. Contracting officers for surplus property sales are aware of the provisions of Armed Services Procurement Regulations and Army procurement policy concerning the authority and use of paid advertisements for sales of surplus property.

ORGANIZATION FOR DISPOSAL

It was readily evident to the staff that the wide variations among the services, as well as within a single service, in all phases of excess and surplus property management and disposal are not in keeping with promoting a uniformly efficient disposal operation. The staff believes that many deficiencies of the present disposal system can be eliminated through the establishment of an independent property disposal organization with the DOD.

Army comments

This problem is being studied by a team consisting of representatives of the Department of Defense and each of the three military departments.

STAFFING FOR DISPOSAL

(1) Disposal supervisors, as such occupy GS civilian grades ranging from GS–5 to GS–13 but are mostly in grades GS–6 to GS–9. There seems to be no particular relationship between GS grade and the degree of responsibility.

(2) The staff can see little justification for assignment of commissioned officer personnel in the disposal field except to certain areas where the services of competent civilians cannot be obtained.

(3) Generally, officers of all three services do not like assignment to utilization and disposal organizational elements, as the consensus among them is that such an assignment does not further their military career.

Army comments

(1) The Department of the Army for several years has recommended that the Civil Service Commission revise these standards. In response to these recommendations, the Civil Service Commission is currently engaged in a study to revise the job standards for surplus property disposal jobs and has scheduled the publication of new standards by June 30, 1958. In developing its standards study the Civil Service Commission has received active cooperation from management and personnel representatives of the Army. Representative field activities have been visited by the Commission to obtain a firsthand picture of disposal operations. A draft of the new job standard is scheduled for distribution to all executive departments and agencies during March 1958. The Army will review the proposed standard to insure that it adequately meets Army requirements.

(2) Of the 63 officers assigned to sale and salvage operations worldwide, 49 are overseas and only 14 are in the continental United States. Civilian personnel are used in this function when personnel ceilings, fund availability, and recruitment actions permit. Difficulty in procurement of qualified personnel in certain areas dictates the utilization of best qualified personnel, either military or civilian.

(3) Disposal of surplus property is a merchandising activity of the Army which does not relate itself directly to military operations. For this reason civilian personnel are utilized to the maximum. In most overseas areas the shortage of civilian personnel qualified in this field necessitates the utilization of Army personnel until civilian incumbents can be recruited. To this end, the training of a nucleus of military personnel in the USA is essential to the performance of this activity in oversea theaters.

LACK OF PROPER FACILITIES FOR PROPERTY DISPOSAL

The lack of proper facilities for storing, processing and disposing of excess and surplus property is a major factor contributing to substandard disposal operations. At installations where warehouse space is inadequate for efficient operations, immediate steps should be

taken to provide the necessary space by some means, such as transfer of national stockpile material to other locations, rewarehousing and compacting existing warehouse stocks, and purging the warehouses of property that is actually surplus but has not been acknowledged as such.

Army comments

(1) The Army provides the best possible facilities for storing, processing, and disposing of surplus property, taking the costs of so doing into account, as well as probable increases in returns from surplus sales. The Army does not believe that the means suggested for acquiring or consolidating additional space for property disposal activities are generally feasible with respect to Army depots, although they might hold in isolated instances.

(2) Where depot stocks are declared excess, the most economical practice is to permit them to remain in place until final disposal action is taken. This avoids unnecessary handling of stocks.

(3) Good storage practice minimizes the possibility of increasing space availability through rewarehousing operations. Past experience has proven the costs of rewarehousing operations to be disproportionate to benefits, unless undertaken through normal receiving and shipping operations.

(4) Public Law 520 (60 Stat 596) approved July 23, 1946, charges the Army, Navy, and Air Force with the responsibility of providing storage space and facilities required for stockpiling critical materials at places and in amounts requested by the General Services Administration. Within the Army only 26 of 63 depots and depot activities have been affected. Of the 26 Army depots where this material is stored, only 4 would benefit materially if GSA were to undertake the costly process of relocating these materials.

(5) At Ordnance installations, a varying proportion of the tonnage of surplus stocks is materiel requiring demilitarization. This stock must be kept in open storage in order to demilitarize it in an effective and economical fashion.

LACK OF A CENTRAL BIDDERS LIST SERVICE

To receive invitations for bids on Army and Navy sales, it is necessary for the prospective bidder to contact approximately 300 installations.

Army comments

In order to obtain invitations to bid from all Army installations in the continental United States, a prospective bidder need contact only eight headquarters. These are the headquarters of the major ZI army commanders, the Chemical Corps Materiel Command and the Chief of Ordnance. Each of these headquarters will, if requested, have a prospective bidder's name placed on the mailing list of all Army installations under its supervision for sales of surplus property.

DEPARTMENT OF THE NAVY COMMENTS

STATEMENT OF THE ASSISTANT SECRETARY OF THE NAVY (MATERIAL) THE HONORABLE F. A. BANTZ, BEFORE THE HOUSE SUBCOMMITTEE ON DEPARTMENT OF DEFENSE APPROPRIATIONS

Mr. Chairman and members of the committee, I appreciate the opportunity of appearing before your committee today.

I want to thank the committee and compliment its surveys and investigation staff for the very thorough study they have made of practices within the Navy supply system. To me, it has been particularly interesting that, while your staff found many areas where it is believed we can improve our operations, they have also found many beneficial effects of the Navy's emphasis on business management in military supply. It is our intention, of course, to further develop and improve the Navy's integrated supply system which we believe is founded on sound principles.

I would like to advise you at this time of some recent actions in this regard.

Two directives were released this fiscal year to strengthen the Navy's material management ability. One instruction establishes a system whereby bureaus—the Navy's program managers—will feed program and technical data to supply demand control points where the bulk of inventories are managed. The other instruction carefully defines the areas of material management inherent to bureaus and supply demand control points, respectively. It provides for bureau management where engineering control is dominant, and supply demand control point management where quantitative control is primary. These instructions act to free the technical bureaus of nontechnical matters and thereby enhance program management ability. Also, they permit the "supply" bureau to extend its integrated control over a wider range of items.

We will continue to capitalize additional inventories in the Navy stock fund wherever practical. At the present time, ordnance repair parts are in the process of being brought under stock fund financing and should be capitalized during fiscal year 1960.

We hope these actions will enable presentations to Congress and the Bureau of the Budget of a comparatively simple but considerably more comprehensive statement of the Navy's material transactions. Also, more economical consumption of material should be achieved.

With respect to support of new equipments being introduced into service use, we have recently provided more explicit policy guidance concerning the range and depth of repair parts to be procured through the provisioning process, with the objective of minimizing the initial investment in such parts. This policy also requires selective attention, at the time of provisioning, for those repair parts which are significant from a financial standpoint. In addition, we are developing, jointly with the Army and the Air Force, a uniform provisioning parts list format which will benefit both the services and industry by reducing the costs of such lists and by facilitating their preparation.

As we advance in the development of weapons systems, there is a tendency for growth of overlapping interests in material engineering and development. A recent SECNAV instruction established a "lead

bureau method of system development" to control this situation. A "lead bureau," as designated, has overall technical control and budgetary responsibility for system research and developmental effort involving more than one bureau. This method provides for single management of an item during its developmental phase and precludes duplicate research effort. The extension of this concept to procurement, production, and distribution control is currently under study.

Current emphasis on fleet mobility and operational capability has focused our attention on the control of afloat endurance. This is dependent on the coordinated development of more scientifically prepared allowance lists. We have implemented the coordinated ships allowance list program. This program is designed to improve availability of all repair parts, save weight and space and simplify control procedures, while at the same time providing ships with a better overall balance of items and quantities.

An accelerated disposal program was inaugurated in March 1957. This program directed a critical review of the Navy's requirements in light of technological advances and called for promptly identifying and removing from the supply system all material not specifically needed to meet the refined material requirements. Disposal action was initiated on $1.43 billion during the first 6 months of fiscal year 1958. It is estimated that during the last 6 months of this fiscal year, disposal action will be initiated on an additional $800 million worth of obsolete, wornout, and other types of unneeded material and equipment.

We recognize the useful and constructive purpose of the committee's inquiry and realize we can profit by your findings. As indicated in my letter to Mr. Mahon (attached), we find common agreement in many areas, and the comments submitted are intended to provide further explanation of the situations described by the staff.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D. C., March 17, 1958.

Hon. G. H. MAHON,
Chairman, Subcommittee on Department of Defense Appropriations, Committe on Appropriations, House of Representatives, Washington, D. C.

MY DEAR MR. MAHON: Thank you very much for furnishing copies of the report dated January 15, 1958, by your surveys and investigations staff on the procurement, supply, and surplus operations, Department of Defense.

We find common agreement with your staff in many areas and the report will help us in our management and improvement of procurement and inventory operations during the coming year. Examination of the report also reveals several aspect which we feel require further explanation. Comments to this end are attached.

Sincerely yours,

F. A. BANTZ,
Assistant Secretary of the Navy (Material).

COMMENTS ON REPORT OF JANUARY 1958 OF SURVEYS AND INVESTIGATION STAFF, HOUSE APPROPRIATIONS COMMITTEE, ON THE PROCUREMENT, SUPPLY, AND SURPLUS OPERATIONS, DEPARTMENT OF DEFENSE

PART 1—PROCUREMENT

Chapter 2 of part 1 (procurement) of the report contains a discussion of the problem in connection with the Armed Services Procure-

ment Regulation, its revisions and implementation. Mention is made of certain revisions to ASPR which have been made during the past year. Navy personnel are participating in the joint DOD programs to revise and improve ASPR.

The report notes that the Navy's Index to Procurement Information "is a time-saving aid in bringing together various procurement references pertaining to a common subject."

A completely revised edition of the index will be ready for distribution in April 1958. Not only will it include the regular changes which have been made in the ASPR Navy procurement directives, and other official publications but also cross references to the completely revised edition of the Negotiator's Handbook. In addition, it will index for the first time Navy Contract Law, which publication has recently undergone a complete revision.

The report (p. 37, lines 5–9), states that the "Navy is guilty of the practice of sole source negotiation, compelled by failures to get drawings and specifications." Navy views on this subject have previously been expressed in Assistant Secretary of the Navy (Material) letter of February 10, 1958, to Senator Sparkman, which said, in part:

> To lessen dependence of military operations on a single source and to promote competition and provide standards for determining reasonable prices it has been the continuing policy of the Navy to make specifications and drawings available to prospective suppliers to the maximum extent feasible. It must be recognized, however, that certain factors may prevent a complete realization of this objective of obtaining adequate specifications. These factors include rapid advances of the art, with the necessity to make purchase of new models before specifications can be prepared and the unavailability of enough governmental personnel to prepare the documents needed.

This letter also advised of efforts being made through Navy small business specialists (I) to review all proposed procurements where lack of detailed specifications and drawings preclude competition, (II) to attempt to obtain the required data wherever possible, and where not possible, (III) to immediately initiate action so that there will be available drawings and specifications on later procurements. Also, the Navy is now in the process of looking into selected items of aircraft equipment and supplies procured from single sources because of lack of specifications and drawings to determine whether drawings and specifications can be obtained so that future procurement of these items can be made on an advertised or competitive negotiated basis. Finally, all contracts in excess of $50,000 which cite the authority to negotiate of title 10, United States Code, section 2304 (a) (10) and which utilize the illustrative circumstances listed in ASPR 3–210 (xiii) are now subject to business clearance. Illustrative circumstance (XIII) concern "when it is impossible to draft, for a solicitation of bids, adequate specifications or any other adequately detailed description of the required supplies or services."

The report cites, as examples of sole source negotiation without competition, 2 contracts for intercommunication equipments, 1 contract for 2 items of emulsion cleaning compound, 3 contracts for aviation crash helmets, and a construction contract in Spain.

With respect to the two contracts for intercommunication stations, the Navy agrees that the procurement actions taken were deficient in that the need for the product from a sole source was not clearly established. There was no clear evidence to indicate that the product of

another manufacturer, though not identical to the item purchased, would not have met the Navy need.

A review of the contract for emulsion cleaning compounds indicates that Turco Product No. 4008 is used in cleaning aircraft jet engines. This product has been authorized for procurement for use at three naval air overhaul facilities where work is performed on jet engines. A current project (TED No. NAM AE 42117) is underway at the Navy Aeronautical Materials Laboratory to test materials and develop a specification which will produce a satisfactory product for use in jet aircraft engines. Upon completion of the tests and study now being conducted, a specification will be prepared and published which will permit competition among all producers whose products successfully pass requirement tests under the specification.

The purpose of Turco Product No. 2844 has been made in limited quantities on a sole source basis for two specific Navy activities. This cleaner which is used on aircraft outer surfaces is the only compound found that can be used in extremely hot climates without causing severe skin irritation and dermatitis to the using personnel. For this reason and upon the recommendation of the industrial health officer at naval air facility, Litchfield Park, Ariz., this compound is being purchased for that activity and for the naval air station, Corpus Christi, Tex. The aeronautical materials laboratory at the Naval Air Materiel Center is presently engaged in a project (TED No. NAM AE 42168) to make tests and develop a specification which will completely meet the needs of the Navy. It is expected a new specification under which considerable competition will be obtained will be available in June of 1958.

The contracts for procurement of the Navy APH 5 aviation helmets were the first production contracts entered into after completion of the developmental contract for 50 prototype helmets. An evaluation of the helmets initially produced, coupled with changes necessitated by technological advances in aircraft, resulted in several revisions to the helmet design. For these reasons a firm specification could not be written until February 1956. The specification (MIL–H–19366) was published at that time and distributed to 12 potential suppliers who were invited to submit samples for qualification testing. As of this date only one additional contractor has submitted a helmet which has passed the testing requirement. The Navy recently advertised for a quantity of 17,580 of the APH 5 helmets and received 2 responsive bids. An evaluation of these bids is now in progress. Therefore, it may be seen that the Navy has taken action to establish a specification which forms the basis for securing competition through formal advertisement.

A review of the circumstances surrounding the construction contract in Spain revealed that the case referred to in the report (pp. 40, 41) was actually a subcontract between a Navy prime contractor and the Spanish company, Bazan. The Navy's decision not to take bids for this project was based on a number of facts. Among these were the facts that Bazan was already engaged in extensive operations at El Ferrol, a remote and difficult site, and Bazan controlled virtually all access to the site, all reasonable proximate quarries, the local

labor supply, and the required equipment. Both the Navy and its prime contractor, Brown-Raymond-Walsh, were of the opinion that direct negotiation would yield a more precise agreement and a better price than competitive bidding.

The report (p. 43), discusses letter contracts and notes delays in converting letter contracts to definitive contracts. Approximately 75 percent of Navy letter contracts outstanding as of December 31, 1957, involve the procurement of aircraft and missiles. Each new request for the issuance of a letter contract is carefully analyzed and is approved only when it is determined that the best interest of the Navy will be served by this type document. Recent emphasis on missiles, particularly POLARIS, may necessitate additional new letter contracts during 1958.

Each request for an extension of the conversion date of a letter contract is reviewed by two separate branches of the Office of Naval Material and substantial justification is required in all instances. It is considered that the letter contract is a necessary method of contracting in certain specific situations. Continuing effort to effect timely definitization action will be made.

A comparative statement of the number and dollar value of letter contracts outstanding as of December 31, 1956 and 1957, is shown below. This tabulation indicates a reduction in number from 83 to 58 during the year 1957 and a reduction in total monetary value from $1.9 billion to $1.5 billion.

Fiscal year of issuance	1956		1957	
	Number	Value	Number	Value
1952	1	$18,879,000		
1954	1	31,018,000		
1955	16	495,955,000	5	$43,245,000
1956	30	540,938,000	15	563,437,000
1957	35	849,939,000	29	655,926,000
1958			9	225,979,000
Total	83	1,936,729,000	58	1,488,587,000

The report (p. 52) notes the lack of timely redetermination actions and final pricing under contracts which contain redetermination provisions. As mentioned in the report, the Navy has taken action to correct the delinquency in this connection. As of June 30, 1957, the Office of Naval Material instituted a new monthly reporting system, on unpriced redeterminable and incentive-type contracts (NAVEXOS 3588), requiring all Navy contracting activities to report the status of each separate contract. Personnel of the Office of Naval Material chart the progression toward definitization and, when excessive delays are noted, special attention is directed to ascertain the cause and remedial action necessary. By the operations of this system, responsible personnel in the bureaus are made aware of the deficiencies in their procurement cycle and corrective measures are taken.

The number and status of redeterminable price and incentive-price contracts in the Navy on December 31, 1957, together with comparable figures for December 31, 1956, are shown in the following table:

Number and status, price redeterminable and incentive contracts as of December 31

	Price redeterminable contracts		Incentive contracts	
	1956	1957	1956	1957
Target point not reached	59	53	67	58
Target point reached—Contractor's proposal not received	28	13	23	25
Proposal received by Government	77	82	87	83
Total	164	148	177	166

From the above it will be noted that we have continued to reduce the number of redeterminable and incentive-type contracts and also substantially improved our position with regard to final pricing of those contracts. The present number of these types of contracts is regarded as normal but we are making a continuing effort to accomplish the final pricing expeditiously.

The report (p. 53) indicates that some use is still made of time and materials contracts which is, in certain instances, at variance with the provisions of the armed services procurement regulation. The Navy has directives which permit use of time and materials contracts only when no other type will suitably serve. The Bureau of Supplies and Accounts requires its field activities to obtain approval from its Assistant Chief for Purchasing before entering into time and materials or labor-hour contracts. In addition, such contracts must be approved in advance by legal counsel.

The report (p. 61) comments in some detail regarding deficiencies in the administration of contracts. The need for development of more positive measures for control over contract administration functions, particularly contractor performance, has long been recognized by the Department of the Navy. Existing procedures now in use were developed for the most part during World War II, and these procedures have been revised over the years to accommodate only necessary changes in current conditions and because of new or revised legislative regulations. However, it has always been recognized that the development of new procedures and the revision of existing procedures must necessarily be regulated by the serious limitation of available manpower.

Recent procedures developed by the Office of Naval Material (Navy Procurement Directive 8–001, ONM Instruction 4850.82 and 4850.83A) have specified a new concept of "team operation" concerning Navy contract administration functions. This concept delegates specific responsibility to each member of the procurement and administration team, and requires positive timely decisions and specific actions concerning the various situations which may occur during contractor performance of the contracts. In addition, this concept also specifically delegates the overall responsibility for coordination and control of contract administration to a team captain, the contracting officer.

Statistical studies of this new concept have indicated a marked improvement in the administration and performance of Navy contracts. Consistent with available manpower, new and additional procedures will be developed along similar lines.

The apparent weaknesses in the administration of the contracts listed at the bottom of page 62 of the report are recognized. The procedures recently established will reduce the number of delinquencies occurring in the future. The example of delay in taking appropriate contract administration action in connection with contract N204s-32532 is the result of failure to follow established procedures. This deficiency has been called to the attention of the activity concerned.

The delay in issuance of a modification to contract N140(131)-59783B has been determined to be excusable since it was caused by technical difficulties beyond the control of both the contractor and the contracting officer.

The comments made in the report (p. 65), concerning the audit, survey, and review procedure of the Navy are noted. The Navy has requested additional personnel for internal audit in the 1959 budget now before the Congress. The numbers planned should give the proper balance for the present. Representatives from the Office of the Navy Comptroller and Office of Naval Material, prior to receipt of the committee report, started discussions for the purposes of clarifying the scope and responsibilities of surveys conducted by NAAO Internal Audits and the Procurement Review Group. These discussions will be continued, and will take into consideration the recommendations contained in the committee's report. An early agreement will be sought which will fully delineate the mission of the two agencies and will provide for the thorough, aggressive, and systematic audit programs recommended.

The report, (p. 66), comments in regard to inadequate filing arrangements in several of the activities visited. While it is extremely difficult to maintain contract files in shipshape condition at all times, the deficiencies in this regard are recognized. Adequate instructions regarding the maintenance of files and their documentation are in existence. A reemphasis of the importance of the filing function will be made and corrective action will be taken where required.

The report (p. 79) comments in considerable detail concerning procurement under government-to-government agreements which contain "no profit" provisions. The matter concerning "no profits" provisions in government-to-government agreements has been given considerable attention by the Assistant Secretary of Defense (International Security Affairs). A special representative for the Department of Defense, Mr. Warren Hoagland, was assigned to a position in Europe with sole duties in connection with this "no profit" field. The Navy procurement activities in Europe work very closely with Mr. Hoagland in this regard.

The Bureau of Ships contracts in Italy were not for the "repair of ships" but were actually ship construction contracts awarded prior to the execution of the OSP memorandum of understanding, with the exception of 3 contracts in 1954 and 2 small contracts in 1957. As pointed out in a memorandum for file, serial 1712M-28, Bureau of Ships, dated February 14, 1958, which thoroughly covers this matter, it is a generally accepted fact that the terms of United States Navy

OSP ship construction contracts are much more favorable to the United States than the minimum provisions set forth in the OSP memorandum of understanding.

The report indicated it was difficult to excuse the contracting officer (Bureau of Ships) for negotiating contracts in clear violation of the memorandum of the understanding with Italy on offshore procurement dated March 31, 1954. The contracting officer (Bureau of Ships) even before this memorandum of understanding was negotiated, arranged for the execution by the Italian Government of a guaranty of performance with respect to each and every ship construction contract. Each guaranty of performance expressly provided that the Italian Government shall not be entitled on any such contract to any financial profit of any nature, including any net gain resulting from fluctuation in exchange rates.

The Bureau of Ships contracting team considered that the terms of their OSP contracts with Finmeccanica were not inconsistent with the provisions of the memorandum of understanding of 1954. Moreover, they did not consider it to be in the best interests of the United States Government to jeopardize the placement of these OSP contracts by specifically providing in these prime contracts for no profit to subcontractors that were subsidiaries of Finmeccanica. To have done so would have resulted either in higher prime contract prices because no Finmeccanica subsidiary would subcontract on this basis, or in no contract at all in those instances where no other Italian shipyard not affiliated with Finmeccanica was able to construct the ships. It also would have resulted in the contracting team having to relinquish many favorable terms included in the OSP contracts which were of more benefit to the interests of the United States than the "no profit" concept.

The contracts with Finmeccanica entered into in 1957, under article 6 thereof, entitled "Compensation," permitted 8-percent profit to be made only by the subcontractors (subsidiary shipbuilding yards, etc.), but specifically provided that such provision for profit was made without prejudice to the pending overall negotiations under the memorandum of understanding between the Government of the United States and the Government of Italy relating to offshore procurement dated March 31, 1954. A further provision under this same article stated "The contractor (Finmeccanica) agrees that it shall not be entitled to a profit," and that the term "profit" as used in this connection did not include profits, if any, to building yards and other subcontractors under the contract. The contractor, Finmeccanica, further agreed that it would not be entitled to any charges or other reimbursements covering administrative costs with respect to the contracts.

Contracting personnel in Europe feel there is little likelihood of host governments realizing "excesses of receipts," the term used in the agreement with the United Kingdom in which the word profit never appears. If "profit" were realized after reviewing all contracts collectively as provided in the agreement, the host government "shall refund the amount of the profit without interest to the United States Government under arrangements and procedures to be agreed upon be ween the two Governments." While most agreements specify a date by which such adjustment must be effected, the agreements continue, "or such later date as may be mutually agreed upon by the two Governments." Recent confidential messages between DEFREPNAMA and

OASD (ISA) indicate that discussions are well underway with some countries (particularly Italy) in determining whether "profit" has actually accrued to the Government.

(References to a contract placed with an Italian firm for ammunition pertain to an Army contract made by USAREUR Ordnance Procurement Center with Nuove Reggiane for 75-millimeter ammunition at a total cost of $7,815,405, covered in COMPGEN letter B-122828 to SECDEF dated February 4, 1955, copy of which is attached to BUSHIPS memo mentioned above. This letter also covers BUSHIPS contracts with Finmeccanica and concludes, "Because of the many perplexing problems involved, it appears that aggressive action at a high level in the Department of Defense is needed in order to establish a practical working policy for administering these no-profit provisions within a reasonable time." Shortly thereafter Mr. Hoagland arrived in Paris to assume his duties in connection with administering these no-profit provisions.)

Part II—Supply

The report (p. 30) makes several comments on the single manager plan; e. g., single manager assignments are made on a "compromising rationale of cutting up the pie" rather than that which is best for DOD as a whole; service resistance has been a strong deterrent to effective implementation of existing assignments; DOD has been lax in further implementation of the single manager plan.

The rationale for single manager assignments will undoubtedly be explained by the Department of Defense where such assignments have emanated. However, the staff's comment concerning the effective implementation of assignments is difficult to comprehend in view of the performance of the single manager for medical which has effected reductions in personnel and operating costs with sustained effectiveness. Such results support the position that actual and demonstrated performance is the best premise for single manager assignments.

The staff reported (p. 34) it had been informed that most of the overage inventory (1953 and 1954) of provisions under the single manager originated with the Navy. Moreover, it was stated that because of the lack of a uniform law which DOD has yet to request from Congress (master menu applicable to all services), the Army and Air Force are required to eat overage food originated with the Navy. Of the 38,141,057 pounds of nonperishable subsistence items transferred by the Navy to the Military Subsistence Supply Agency during the period March-June 1956, 2.08 percent were 1954 pack or older, and of that total 1.61 percent was 1954 pack. The Navy has, for years, followed the practices of substitution and "forced feeding" to consume its overage and excess subsistence items and continues to do so at present with excesses in its retail distribution system. The master menu concept does not possess the flexibility required by the varying character of Navy messes. Differences in feeding requirements generated by climate, by food appropriateness and preferences in geographical areas, in price variations resulting from seasonal availability, and of the facilities available to messes are factors which, in Navy experience and for Navy requirements, are more effectively met through the present system used by the Navy. The Navy's method effectively reg-

lates the issue of food at the consumption level, and also provides for the consumption of items which are in a long or imbalanced supply position. The Navy system is equally effective ashore and afloat, and is particularly effective on ships, where the problem is further complicated by a high degree of mobility and severance from normal sources of supply.

Subsequent Navy reply is devoted to staff comments concerning requirements determinations for end items and repair parts with particular emphasis on the aviation segment of the Navy supply system.

The staff observed (p. 53) that dual management authority is exercised over the Aviation Supply Office (ASO) by the Bureau of Aeronautics and the Bureau of Supplies and Accounts. It concluded that this division of authority is basic to current problems and deficiencies relating to requirements, computations, and excesses. This is a matter that has been known to me for some time, and I am personally assembling all pertinent information on the problem. Thereafter, a careful evaluation of the situation will be made, and I expect to make an early decision to resolve this matter.

That inadequate attention has been given excess screening (p. 54) is acknowledged insofar as the aviation segment of the Navy supply system is concerned. However, ASO planned fiscal year 1958 for a disposal campaign, and the first disposal letters were released in the second quarter. The projected total was $300 million and action is proceeding according to plan. In fiscal year 1959, ASO expects to be capable, through further mechanization, of two disposal "runs" per year. This procedure will mean a maximum lag of 6 months between the reduction or elimination of a naval aircraft program and the ability to translate that change into system excess determinations by item. No reason is foreseen for this not being a regular, routine procedure in the future.

Aviation intrasystem transfer statistics, although comparatively high (p. 54), must be evaluated in relationship to the deployment of naval aircraft. The inherent mobility of aircraft, coupled with deployment changes, forces, actual usage at points other than originally predicted. Distribution policy provides for initial distribution directly to the point of expected use and is followed implicitly. Moreover, ASO invariably allocates quotas of overhaul items directly to the overhaul point designated for specific aircraft.

The staff conclusion (p. 55) that catalog conversion deadlines for aviation material were arbitrary is true. However, such deadlines are arbitrary only in the sense that they were part of a systemwide timetable for for conversion. To do other than employ coordinated phased schedules would have disrupted the plan for converting all Navy material and would have impeded compliance with Public Law 436. Problems of cross-referencing and research were anticipated. Navy procedures have been, and are being, developed to overcome this and other deficiencies. Specifically, ASO is broadening the framework of its cross-referencing documentation to include FSN's to manufacturer's numbers. There is simply no economical way to cross-reference old documents. Ultimately as conversion proceeds, documents such as microfilm prints and blueprints, will contain FSN's as they are furnished by the manufacturers.

Repairable stocks in proportion to total inventory, at class A naval

air station has increased as the staff observed (p. 55). However, the RB and RE material inventory valued at $588 million is not static. It includes components and equipments susceptible to cyclic repair and reuse. During fiscal year 1958, about $164 million will be repaired and returned to use. Also, much of the material carried in RB and RE is designated for support of contingency retention aircraft; planned figures for which were 870 on June 30, 1957, but are, as of December 31, 1957, reduced to 150. Substantial reductions in RB and RE inventories are expected to accrue in fiscal years 1958 and 1959 as a result of the reduction in contingency retention aircraft. Basically, aviation material is procured to last for the predicted program life of an aircraft. Therefore, when such a program is phasing down there is an inventory lag in that spare engines on hand are greater than the requirements for the remaining operating aircraft. The aviation segment of the Navy is vigorously pursuing its fleet introduction replacement model (FIRM) program. Under this program an aircraft is operated for 1 year in the fleet, and usage data is collected, prior to making the program-life buy.

The staff cited examples (p. 57) where failure to get timely parts support has reduced the combat capability of aircraft. This situation also is under active and careful consideration by the undersigned. A means of improving this unsatisfactory condition will be undertaken promptly.

The staff's observation (p. 105) that computation of requirements through the replenishable demand issue system (RDIS) is deficient when compared with the program usage replenishment system (PURS) in that net and gross requirements for procurement and disposal are not produced mechanically, is correct. The fact that it has not been so produced is not due to a basic deficiency in the RDIS procedure but is caused by a lack of availability of electronic data processing and programing capacity. Such requirements can and will be produced mechanically. ASO has a high priority assigned to this program. While at the time of the staff's review, there were 171,000 items under PURS management, the Douglas class (17,000 items) cited by the staff has since been added. This addition was in keeping with a long-established schedule for expanding PURS management to 335,000 items, constituting 75 percent of the ASO managed inventory. Regarding the utilization of PURS tools by requirements analysts, the data concerning Curtiss-Wright and Pratt & Whitney engine parts have been verified and the information cited in the staff's report is correct. The procedure for the processing of excess on order cards is being revised (ASO Instruction 4370.2) and will correct the abuses mentioned by the staff. Excess cards will be furnished with the consolidated stock status report, or 1 day following it. Stock control will process net requirements cards within 8 days and, then, process excess on order cards within the next 8 days.

The staff's contentions (p. 110) that Navy flying-hour programs are consistently overstated and that program documents concerning active aircraft were not available, are not understood. Complete flying-hour tabulations are available in both the Aviation Supply Office and the Bureau of Aeronautics. Statistics compiled from this information revealed that in May 1956 CNO estimated fiscal year 1957 flying hours to be 4,550,415. Actual flying hours during fiscal year 1957

were 4,326,508 or 223,907 hours less than CNO predicted. This is an overstatement of approximately 5 percent and appears improbable of being "the largest single contributor to the overprocurement of aeronautical spare parts."

Part III—Surplus

Part III concerns itself with "factors which cause the generation of surplus property and efficiency of disposal of such surplus property." The staff distinguishes between excess personal property (that which is unnecessary to requirements of DOD) and surplus personal property (that which is excess to all Federal agency requirements). The staff arrived at one principal conclusion, "There are really no new problems confronting the DOD in the field of utilization of excess property and disposal of surplus property, nor has there been any vigorous effort on the part of DOD to solve the old problems." Subsequent comment herein pertains to staff remarks that could be identified to Navy practices.

The staff observed that the various segregated stock retention levels (p. 7) authorized by DOD permits flexibility in transferring stocks between levels "with the inevitable stock hoarding." To consolidate retention categories would be to return to a situation which stratification was designed to correct. Stratification provides a realistic basis for the determination of requirements, positioning of stocks in relationship to their end use and a more realistic application of disposal criteria. Data on these stock levels are vital to budget preparation. The consolidation of these levels to any substantial degree would obscure an effective management tool.

The staff commented on the failure to coordinate disposal of spare parts with related end items (p. 10). It also stated that it could find no specific or coordinated effort to improve the situation. The Navy concurs that the flow of planning data between technical bureaus and supply demand control points (SDCP's) can be improved. However, the Navy now has the means for fuller implementation. The relating of secondary items to principal items in the disposal process is mainly a problem of machine capacity. Major inventory control points have mechanized part-to-component tabulations and through electronic data processing methods can reconcile parts to components during regular disposal reviews. Further, in recognition of the planning data feed and feedback situation, SECNAV Instruction 4440.21 has been issued by the Secretary of the Navy. This Instruction directs technical bureaus to establish joint agreements with the Bureau of Supplies and Accounts, which will provide for the orderly and timely notification of equipment, program, and technical data to the SDCP's. The premise of this instruction is in keeping with the Navy's program support-supply support concept.

Local purchase was cited by the staff (p. 14) as having "gone far beyond anything that was ever contemplated by its originators and is contributing materially to excess and surplus property generation." This comment is not consistent with Navy statistics which disclose that as of December 30, 1957, the total money value of inventories procured locally was $22½ million or about 1 percent of the total Navy stock account inventory. The Navy does not believe the local

purchase program contributes significantly to the generation of excess property. Decentralized control for certain readily available items is demonstrably more economical and capable of providing greater sensitivity to local demands. This concept as practiced by the Navy does not mean that central control has been removed. The cognizant inventory manager prescribes stock levels and conducts a regular review of the items to redistribute excesses if they occur. Moreover, close control of the local purchase allotment by the central inventory manager and close management controls of stock levels help to prevent excesses from generating.

The staff expressed the view "that the perpetual inventory is a more accurate and economical method of inventorying and will ultimately contribute less to the generation of excess and surplus than the shutdown inventory" (p. 16). The Navy concurs with this expression. The perpetual inventory has been in use by the Navy for many years. Navy policy was revised during fiscal year 1957 to provide that as a general rule items will be inventoried triennially. This policy is by no means inclusive and items which are critical, fast moving, high-unit cost, pilferable, serially numbered, short shelf life and long procurement lead times are still subject to annual inventory. The change to triennial inventory was made to reduce field workload in a selected area because of curtailed operating funds. A study is currently being conducted to analyze the results of the revised practice.

Examples were cited by the staff (p. 18) implying deficient Navy practices in the utilization of surplus property.

Melton cloth—This melton cloth was purchased in fiscal year 1952 for use in enlisted women's overcoats as part of the Navy portion of the Department of Defense wool reserve established pursuant to Public Law 843, 81st Congress, chapter X. A total of 15 different items were purchased by the Navy under the wool-reserve program, amounting to approximately $130 million. Purchase of the melton cloth in question amounted to approximately $500,000 or less than one-half of 1 percent of the total wool-reserve procurement. The choice of this fabric for a small portion of the wool reserve was based on planned increases in the number of enlisted women in the Navy which did not subsequently materialize. These plans emanated originally from the office of the Assistant Secretary of Defense (Manpower, Personnel, and Reserve) in 1951. The excess thus arose as a result of reductions in planned women personnel strengths.

Socks, men's wool, natural.—The bulk of the current stocks of socks was procured during World War II. Mobilization reserve deficiencies, based on wartime issue rates, of this item in 1951, combined with the Public Law 843, chapter I, of the 81st Congress, relative to the procurement of wool reserves, resulted in additional procurement at that time. These socks were eliminated as a uniform item by the Navy in late 1953 to be effective July 1, 1955. The change in uniform regulations was made for several reasons, e. g., the prescribed shoe for enlisted men is black; a sock of the same color as the shoe is appropriate with either white or blue uniforms or dungarees. At the time the decision was made to eliminate this item, consideration was given

to stock levels and usage rates. The stock on hand was 8,729,152 pairs. This quantity represented an 18-month supply at the issue rate being experienced at that time; usage rates decreased during 1954. To obtain maximum utilization of these socks, the authorization for their use was extended to January 1, 1956. Sales during 1953 were even smaller compared to previous usage. The possibility of dying these socks black, the only color authorized for wear, proved impractical. Since the initial declaration in 1956, about one-half million pairs of these socks have been sold and every effort has been made to utilize these socks within the Department of Defense, or to sell them at reduced prices to other Government agencies. GSA has consistently declined requests for donation of these socks to other agencies such as Health, Education, and Welfare, until further efforts have been made to sell them at a fair market value. The staff points out that "there are obviously many military assignments which would permit the wearing of socks like those reported as excess without affecting the individual efficiency or military bearing or the general 'esprit de corps' of the particular service." However, the system of clothing issue employed by the Navy is such that the man spends for his own needs. Consequently, he, generally will not "buy" an item having restricted usage. He prefers the items having general utility, such as, the black socks he can wear for all purposes.

The general statement by the staff (p. 20) that short shelf life (perishable) stocks can contribute to the generation of surplus property is a question of degree. Recent procedures established by the ASO to control procurement and use of photographic film paper has substantially reduced Navy's losses of these items due to deterioration in stock. The report cites tires as another example of a short shelf life item and was critical of storage of these items in the NCBC, Port Hueneme, Calif., in that tires stored at that activity were not correctly labeled or otherwise identified as to age. The report inferred that the NCBC tires were systemwide stocks of this item. The stocks are, in fact, part of the advanced base functional components in store at the NCBC. Stocks for local activity requirements are bought under local purchase procedures and rarely exceed a 60-day supply. Instructions and regulations pertaining to the storage and issuance of perishable items are issued by the cognizant, supply demand control points (SDCP's), and are also contained in the Storage and Materials Handling Equipment Handbook (NAVSANDA Pub. 284). Readily available commercial items of a perishable nature are decontrolled for local purchase to the maximum extent possible.

It is the feeling of the staff (p. 36) that the Navy is reluctant to use negotiated and retail sales for the disposition of surplus property, when circumstances favor such methods. Navy policy implements fully Department of Defense policy with respect to negotiated sales. The limited use of this sales method is attributable largely to the administrative restrictions imposed by Public Law No. 152, which requires the approval of the Administrator of the General Services Administration and the submission of reports of proposed sales to the appropriate committees of the Congress. A forthcoming change to the Navy Property Redistribution and Disposal Regulation No. 1

(NPR&D) will include a specific section on "retail" sales. Pending this revision retail sales are authorized by BUSANDA on an individual case basis when conditions so warrant. Experience has indicated that the percent of excess material that lends itself to the retail sales method is so small that the dollar return is negligible in relationship to the cost of sales.

The staff recommends (p. 52) consolidation of disposal sale operations in geographical areas conducive to such action. As a result of the Navy's program to continually review the sales authorities, both in overseas areas and within the continental United States, a consolidation of Navy selling activities in Japan was effected on January 1, 1958, at which time NSD Yokosuka assumed sales authority for the fleet activities, Sasebo. During fiscal year 1957 the Navy disposed of $10.7 million personal property in Japan. The Navy concurs in a study of the local situation to determine the practicability of having the Army sell for the Navy in Japan. In connection with operation of the Surplus Property Management Subcommittee of the ISSC, CINCPAC, as executive agent, is being requested to review and determine the possibility of consolidation of selling activities at Pearl Harbor, the Philippines, and Okinawa.

DEPARTMENT OF THE AIR FORCE COMMENTS

Statement of Hon. Dudley C. Sharp, Assistant Secretary of the Air Force (Material) Before the House Committee on Appropriations on the Investigation Into Procurement, Supply, and Surplus Operations of DOD

Mr. Sharp. Mr. Chairman and members of the committee, the structure of the Air Force logistics system has been constantly changing in response to the need to provide better support for combat units. During the past few years the tempo of this evolutionary process has quickened as new concepts and procedures were developed and applied to meet the threat of nuclear weapons and the speed with which they could be delivered.

Providing logistic support for a global Air Force is a major undertaking at best. With the rapid pace of technological development, we have been faced with a twofold challenge. We have had to redesign and speed up our logistic system to keep pace with the new weapons and supporting equipment, and at the same time we have had to support existing weapon systems in the hands of the combat units at the highest possible level of readiness at all times. Unlike a manufacturing plant, national defense cannot be shut down while changing over from old models to new ones.

It is against this background that I would like to discuss some of the major points brought out in the report of your investigating staff.

One of the basic changes currently being made in the Air Force logistic system involves direct support of overseas bases from the continental United States, in lieu of the overseas depot system. Your staff commented, among other things, that this change was implemented too rapidly and without benefit of cost or capability studies. As a matter of fact, the direct support concept evolved from a long series of studies and test projects which questioned the historic theory of abundance in materiel, including long pipelines with intermediate depot complexes overseas. The growing vulnerability of overseas

stockpiles, and the necessity of having materiel immediately available at the bases where it is to be used, also played a part in the considerations. Tests were carried out wherein rotational and permanent units at overseas bases were supported directly from continental United States. The experience thus gained has proven that effective and economical support can be furnished without benefit of the overseas depot system. Similarly, studies made on the airlift requirements of units on rotation and other units permanently assigned to the European area indicated that the direct support concept could be accomplished within our surface and airlift capability.

Computation of requirements is fundamental to an effective logistic system. Your staff took note of several steps we took during the past year to improve our management control in this area. One was the 60-day concept which integrates mobilization reserve materiel with currently authorized peacetime levels and provides spares stockage objectives at wartime rates. Another was the single-program approach which combines both initial and replenishment spares funds into one account and permits consolidated requirements computations against a single program applicable to both inproduction and inservice aircraft. A third step involved deferred procurement or minimum procurement of Hi-Valu insurance or contingency type items.

While recognizing the value of these management improvements your staff criticized our failure to apply them in practice in certain instances. We must agree that newly developed management policies and procedures are not always translated into action by field activities as promptly and as effectively as we would like. It must be borne in mind that it is a tremendous management job to implement the many changes made during the past year, considering their application to hundreds of thousands of items. As a means of expediting understanding and compliance, we instituted, in 1957, a quarterly review of requirements computations for "Hi-Valu" items to insure that new policies and procedures are being followed and that the computations are valid.

In connection with their study of requirements, your staff also criticized overprojection of flying hour programs in relation to the actual hours flown. To alleviate this situation we have revamped our approach to the projection of flying hour programs to reflect the impact of such things as production slippages, engineering problems, and other difficulties which prevent us from flying the hours we would like to fly. This means that the programs will not reflect full requirements—for example, the hours we would like to see flown to achieve the desired degree of proficiency to attain combat effectiveness. However, they will reflect more nearly what we can actually do.

Your staff devoted considerable time and effort to procurement and production, and made a number of observations and recommendations. Among these were the ratio between advertised and negotiated procurements, the use of letter contracts, and contract terminations.

The basic reason for the preponderance of negotiated procurement by the Air Force is well known to your committee. As recognized in your staff's report the bulk of Air Force dollars is spent for complex items such as missiles, missile powerplants, aircraft,

engines, bombing and fire control equipment, electronic equipment, and research and development. In fiscal year 1957 we estimate these complex items comprised 88 percent of our dollars. Within the limited potential available we will continue our efforts to increase the use of formal advertising. We are gratified, however, that the general pattern of negotiation referred to above has been recognized by your staff as one not subject to substantial change.

On the subject of letter contracts, the statistics quoted by your staff are correct. The trend of actions pending on outstanding letter contracts as of the close of fiscal years 1956 and 1957 remained fairly constant. In large measure the problem stems from the urgent necessity of getting new weapon systems, as for example ballistics missiles, into production at the earliest practicable date. We must reduce as much as possible the time between development of a new weapon system and its availability for use. With this objective, we cannot wait until all development and engineering problems are completely eliminated before going into production. Under the circumstances, and considering the complexity of modern weapon systems and supporting equipment, it is impossible to designate at the outset exactly and completely what we want and what the cost will be. Letter contracts must be used in such situations, and the time required to definitize them depends to a large extent on progress made in ironing out remaining development and engineering problems. Nevertheless, we urge our people to avoid the use of letter contracts whenever possible.

In connection with contract terminations, the staff report questioned the fact that Air Force regulations provide for referral of proposed default actions to a central authority, whereas Army and Navy regulations provide for termination action by the procuring contracting officer. Through our own study of termination procedures we had arrived at the same conclusion reached by your staff regarding centralization of contract termination authority. As a result, termination authority was redelegated by Air Materiel Command Headquarters in February 1958 to Air Materiel Areas and Depots, and to the Air Research and Development Command. The redelegated authority was vested in termination personnel, rather than in procuring contracting officers, since our experience has shown that use of specialists in each of the contract areas produces more effective results.

Management of the resources introduced into the Air Force logistic system as a result of requirements computations and procurement action is a matter of profound concern to us all. These resources are assembled for one purpose and one only—to provide the means for carrying out the combat and supporting missions of Air Force units. Our responsibility in this respect is twofold. We must provide all that the combat and support units require to the end that their effectiveness is not compromised by lack of support. At the same time, we must conserve our national resources since they are not unlimited and the demands upon them are great.

Your staff quite logically undertook to measure the effectiveness of supply support in terms of customer satisfiaction, and concluded that low immediate fill rates on depot and base requisitions adversely affected combat readiness. There are many factors which prevent

depots and bases from rendering 100 percent effective supply support. These include production slippages by industry, unpredictable demand, complexity of new weapon systems, and others. Of these, the characteristics of supply demand are of particular significance, since approximately 85 percent of all technical supplies are consumed in a random manner. Recognizing the large number of supply line item demands which occur sporadically, it is not economical to stock quantities of every item so as to achieve a 100-percent fill rate. In an effort to conserve funds, the Air Force has attempted to provide a reasonable range of items, coupled with a responsive system to provide for the numerous unexpected demands. The worldwide AOCP/ANFE rates for all aircraft have been, for a prolonged period, averaging less than 6 percent and 9 percent respectively.

Also in the resources management field, the local purchase program and the cataloging program were reviewed and commented upon in the staff report.

We cannot agree with the staff's conclusion that local purchase procedures contributed to excesses and surpluses. In the absence of local purchase procedures, the materiel so procured would have been obtained through central procurement. We believe that central procurement, with its necessary stockage objectives and pipeline requirements would, if anything, be more likely to contribute to larger excesses. We feel that the local purchase program is serving a useful and economically justifiable purpose in relieving depot inventories and speeding up supply support. However, with respect to local purchase of hand tools, we do agree with your staff that this has in some instances led to acquisition of substandard tools. We have been aware of the problem and have already taken action to correct the situation.

The Air Force cataloging program is moving ahead as rapidly as possible. As pointed out in the investigation report, there have been delays, and recognizing that our schedule was ambitious, the Department of Defense approved a revision of our schedule. We realize that there are still many problems to be overcome, but we feel that the most difficult transition period is past and that increasingly profitable utilization of the Federal catalog data will be made.

The subject of single manager assignments is being dealt with more fully by the Department of Defense. I would like to comment briefly here that the Air Force is not opposed to the single-manager concept in the supply field when the degree of common interest and the volume of business are high enough to make a single-manager operation worthwhile. With reference to the specific comment on photographic equipment and supplies, exhaustive studies conducted by the Air Force in conjunction with the other services indicated that it would be unrealistic to place these items under the single-manager concept, primarily because the percentage of common items (used by two or more services) in this area is very low. It has been recommended to the Secretary of Defense that the pending single-manager assignment for this commodity be canceled and that the four military services continue to cross-service one another in this commodity area under the interservice supply support program.

While on the subject of the Interservice Supply Support Committee I might point out that a comprehensive report covering the work of the committee is being furnished to you by the Department of

Defense. We concur in this report, which was prepared under the supervision of the chairman of the committee and feel that the committee is doing an effective job in providing for maximum utilization of the resources of the military service.

Disposal of surplus property has always been a problem for the military services. We recognize that the problem will always be with us in varying degree. The urgent need for the most modern weapon systems available, and changes in programs to meet the changing requirements of national security, have their inevitable consequence in obsolescence and surpluses.

Our first objective, of course is to insure maximum utilization of excess materiel within the military services in order to reduce demands for new procurement funds and provide the Government with the greatest possible return on money already invested. Your staff made a comprehensive review of the various methods and procedures for achieving this objective, and commented on a number of factors having a bearing on the problem. Significant among these were the coordinated disposal of end items and spare parts, the substitution of excess items for similar items on new procurement, reimbursement requirements for excess stock fund property, and the effectiveness of the Interservice Materiel Utilization Agency. We recognize the validity of some of the points raised in the investigation report and we are doing everything we can to make the procedures as effective as possible.

Disposal of materiel for which there is no use within the military services presents a different type of problem. The principal factors here are the methods and procedures for offering the materiel for sale to the public in a manner calculated to realize the largest possible return to the Government. These include such things as the size of lots to be offered, physical display of the merchandise, notice of sales to the public, and the sales methods themselves—spot bids, auction sales, negotiated sales, and retail sales.

We agree that there is a continuing need to seek improvement in merchandising principles and sales techniques. One way we do this is through periodic publication of Air Materiel Command disposal letters. These letters provide guidance to the various disposal agencies by suggesting improvements, noting exceptionally good practices employed by the various disposal activities and providing information on lotting, descriptions, catalog preparation, display use of advertising, and the selection of sales methods. The information in these letters is based on experience gained from all the activities of Air Force disposal organizations. The Air Force recognizes that these organizations, being closer to the day-to-day problems in disposal are in the best position to question policy and to suggest improved procedures. Other ways in which we seek to improve our merchandising include air materiel area assistance visits to disposal activities, and training programs.

The disposal of foreign excess property is a major problem in itself, and is being compounded by the return of large quantities of overage lend-lease equipment by the British. Restraints imposed by foreign governments, the State Department, and the Commerce Department have restricted efforts to dispose of foreign excess property, and have contributed to the present accumulations. We are

aware of the problems and are seeking all possible ways out. There is no restriction on the amount of property that may be sold for export from the United Kingdom. However, in the past, payment from the sale of such property has been limited by the State and Treasury Department to United States dollars or a nominal amount of foreign currency. Consequently, those purchasers who could offer only foreign currency were limited in their ability to bid on this property. Recently, we have obtained State and Treasury Department permission to accept British pound sterling in an amount not to exceed the equivalent of $7,500,000 during calendar year 1958. This represents an increase of approximately $7 million over the 1957 authorizations. The increased authorization should result in enlarged sales participation, higher returns to the Government, and expedited sales of foreign excess. In addition a plan is being developed whereby the British Government would act as our agency in handling disposal of surplus military assistance program and ex-lend-lease property which they hold, and the United States Air Force, Europe has been asked to develop similar plans for disposal by other host governments.

Your staff quite properly paid special attention to what is perhaps the most important and most disturbing problem confronting us today—the shortage of full qualified personnel in critical areas of the logistic system. This problem was with us when we appeared before your committee last year and it is with us today in spite of what we have done to alleviate it.

There are many reasons why we have the problem—pay scales on which we cannot compete with private enterprise, personnel turnover for other reasons such as completion of tours of duty or terms of enlistment, the need for rotation to man overseas bases, and the length of time required to attain full proficiency because of the magnitude and complexity of the Air Force logistic system. We have training programs, to be sure, both off and on the job, but training is only a part of the story. It cannot substitute for experience. This accounts in part for some of the complaints voiced by overseas people and reflected in the staff report concerning the low skill levels and lack of experience of personnel assigned to them. It would be much preferred if we could fill all positions only with fully qualified personnel, but this is not possible. A man with a low skill level must have experience as well as training before he can be upgraded to a higher level or become fully qualified. All Air Force units are expected to do their share in providing the necessary experience and on-the-job training in order that fully qualified personnel may be developed. This of course involves a penalty in lower overall unit effectiveness than would be the case if only fully qualified personne. could be assigned in the first place. However, this is a necessary and inescapable responsibility of management everywhere.

We will continue our training efforts, and improve them to the greatest possible extent. We will also continue our efforts to find other ways to increase the experience and capability level of our people to the end that our overall performance will be of the caliber we need.

More comprehensive comments on the points covered in this report are provided in the attached statements. We have accepted the re-

port of your investigating staff in the spirit in which it was offered. We do not profess to have immediate solutions to all the problems confronting us, nor do we necessarily take the position that all that we have done and are doing will ultimately be proven to be the best answer. We do believe that our approach is basically sound, and that substantial progress is being made. We welcome any and all ideas and proposals which may assist us in providing better logistic support for the Air Force and, in turn, better defense of our Nation.

Air Force Comments on Investigation Into Procurement, Supply, And Surplus Operations of DOD

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Personnel Pboblems in the Logistics Field

PROBLEM

The committee staff report outlines several areas in which personnel deficiencies are believed to exist. These include assignment of inexperienced personnel to the logistics field and the related problems involving stabilized tours of duty, promotional opportunities, and career development and training plans.

COMMENT

We are very conscious of the problems in the areas referred to by the staff report. Most of these problems revolve around the limited

supply of completely trained people. Unfortunately this is a dilemma we will never resolve without a far more favorable working environment.

Under existing circumstances we are constantly faced with the necessity for training new personnel because of voluntary separations both in the enlisted and officer ranks. A principal source of new officers, for example, is the ROTC program. These officers initially receive training courses in various areas of the logistics field. However, after they complete their 3 years of active duty and are considered fully qualified they very frequently return to civilian life. The problem is further complicated by the necessity for maintaining prescribed manpower strength in oversea areas without imposing undue hardships through extended tours in areas extremely remote, or having very unfavorable climatic conditions, or where dependents cannot be sent. While the overseas tour is in no case shorter than 12 months, we are obviously always faced with some problems involving inexperienced personnel.

The Air Force has taken every opportunity to increase career attractiveness in order to retain trained personnel. For example, problems involved in developing the supply career program referred to in the staff report are being worked out as quickly as possible. The first step in this program is to provide a logical approach toward selection of base supply officers who will progress to more important positions based on demonstrated ability, experience, and planned training. This will be done by categorizing base supply accounts according to relative importance, size, dollar value, support mission, and so forth, and authorizing corresponding grades for the manager of each account. Certain criteria will be established requiring specified years of experience, acceptable performance, and training prior to assignment of officers to a higher category supply account. The program, now being developed, will offer an incentive and the means by which competent supply officers may systematically prepare for positions of higher responsibility and rank.

The staff report also refers to the inadequacy of the Air Force specialty code system generally, and to the lack of a separate career field in disposal, as deficiencies in supplying trained personnel to Air Force field activities.

The specialty code system is designed to identify the qualifications of individual officers and airmen and to establish minimum standards of skill and knowledge which must be attained in progressing up the promotional ladder. We believe the system, which embraces a wide range of occupational specialties, each of which comprises a number of specific jobs or functions designed to provide complete coverage for all tasks in the Air Force, is adequate. It would be desirable, of course, if we could always furnish personnel at the highest skill levels. However, this is obviously out of the question since experience and on-the-job training are major factors in attaining the top levels. Each activity is expected, therefore, to do its share of this necessary on-the-job training. To minimize the problems USAFE has been directed to annotate requisitions for those positions which require fully qualified personnel. Where possible all such critical requests will be honored.

With regard to the special career field in disposal, a survey has been made by Headquarters USAF which indicates that the knowledge and skills required in this area are already included in two existing career fields, warehousing and procurement. Hence an additional field would merely serve to confuse the issue. Promotional opportunities for civilian employees in the disposal area have recently been given attention, and classification standards in grades GS–5 through GS–12 have just been released. This action should provide an equitable basis for classifying positions, and an adequate grade structure.

While the efforts in the various areas mentioned above will help to resolve some of our problems incident to rapid turnover and, hence, inexperienced personnel, we will have to continue to rely heavily on training programs for new people. Considerable advice and assistance have been obtained from nationally recognized authorities in an attempt to improve our career development programs. A recent action has been taken to consolidate many of our procurement training programs, such as the general buyers course, senior buyers course, local-purchase course, pricing seminar, administrative contracting officers course, and production-procurement course under the Institute of Technology, located at Wright-Patterson Air Force Base, Ohio. In addition, the contracting officers course at Francis E. Warren Air Force Base has recently been revised and improved. A large number and variety of technical training programs for logistics personnel have also been developed by the various commands. As a result of these efforts to develop individual abilities, more qualified personnel should be available.

Finally the staff report questions the desirability of staffing field disposal functions with officers, and refers to the civilian staffing of procurement jobs in the Zone of Interior as reducing the pool of trained officers available for overseas assignments.

The Air Force has approximately 214 property disposal activities worldwide. Of this total only 22 activities have fulltime military officers as the principal disposal official. We do not feel that this is inconsistent with the Department of Defense policy on the use of civilian and military personnel in management positions as cited to the Hoover Commission and quoted in the staff report. On the second point, the very shortage of fully trained officers would prevent their use throughout the Zone of Interior. In fact, the use of civilians in Zone of Interior procurement jobs was predicated, in part, on the need to counteract the problems caused by shortages of skilled military personnel. We believe this use of civilians is completely consistent with the Defense policy, referred to above, "that civilian personnel will normally be assigned to management positions where the specialist skills required are usually found in the civilian economy and continuity of management and experience is essential and can be better provided by civilians."

Local Purchase

PROBLEM

The committee staff reports that local purchase procedures contribute materially to excesses and surpluses and that the program should be coordinated by the Department of Defense and made an in-

terservice operation rather than an intraservice one. The staff points out that some local purchase practices are costly.

COMMENT

The primary objective of the Air Force local-purchase program is to eliminate commercial items from the depot system by decentralizing procurement to using activities to the extent that this can be done economically without impairing essential support. Aside from the economies realized by elimination of depot inventories, the program has been of value to commands, overall, in expediting supply. Comments received in a survey of major air commands confirm that they would accept curtailment of the program with reluctance. While any particular method of supply may have disadvantages in certain instances, for the items selected, the Air Force local purchase procedure is regarded as the optimum method. The following subparagraphs deal with criticisms of the committee staff:

(*a*) A direct channel exists between overseas bases and continental United States local procurement activities at ports of embarkation to provide local-purchase items not available overseas. In addition, Air Force regulation 70–16 is being revised to require concurrence of major air commands prior to designation of items as local purchase. The revised regulation will also set up a formal procedure for recommending return of items to central procurement and obtaining an expeditious decision from Headquarters USAF on controversial recommendations. Major air commands and prime depots are required under this procedure to review local purchase items continuously to determine whether any should be returned to central procurement. These actions should expedite Zone of Interior procurement of local purchase items on the materiel requirements list which are not available in Europe.

(*b*) The procedure for recommending return of local purchase items to central procurement, mentioned above, is intended to correct the situation noted with respect to indiscriminate coding of mechanics tools as local purchase items. Additionally, at the request of the Air Force, GSA has expanded the range of hand tools stocked in the San Francisco, Kansas City, and New York areas. (Air Force activities are required to obtain local purchase items from GSA when price and service are equal or better than from other sources.) The possibility of requisitioning common tools from the Navy stock fund is being explored with the Navy. Call-type contracts are being considered. Comments regarding the problem incident to specifications are included in subparagraph (d).

(*c*) The present concept of local purchase without geographical limitation has been in effect since the establishment of the Air Force as a separate department, and this headquarters is unaware of any such limitation prior to that time. Frequently, the term "local purchase" has been misconstrued and subject to erroneous interpretation. For this reason, the Air Force is in the process of substituting the term "base procurement" for local purchase in an effort to clarify the operation of this function. Purchase of an item from other than the immediate area does not in itself indicate that central procurement would be more efficient or economical. Local area purchase

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cannot be required where the "low bidder" is located elsewhere (with transportation costs considered). In some cases, GSA Federal supply schedules are mandatory regardless of location of the contractor. It is generally recognized, however, that GSA contracts and facilities are basically an economical, efficient method of supporting Government activities. In evaluating the effect of local purchase, consideration must be given to the only alternative, i. e., central procurement, which involves purchase of additional quantities for depot stocks, depot storage and handling, transportation from vendor to depot and transportation from depot to using base.

(*d*) The Air Force is continuing its efforts to insure that aggressive programs are maintained by oversea activities for expanding source lists of potential suppliers in the local area. This program is showing considerable improvement over that experienced in the past. As an example, reports from Headquarters Pacific Air Force have indicated that during fiscal year 1956, $5.5 million was utilized for purchase in the Zone of Interior out of a total procurement of $44 million. During fiscal year 1957, less than $1 million was expended in the Zone of Interior out of total of $62 million. Further improvement is anticipated during fiscal year 1958. The Far East Central Purchasing Office has also recently published a local purchase catalog for base use which indicates those items of a common and/or recurring nature procurable in Japan, together with the applicable vendors involved. The above catalog also includes items which are assigned specifically identified stock numbers for ready identification and purchase by the various requiring activities. Commands outside the continental United States have been authorized to disregard military specifications, except for sensitive items, where it is determined that locally available items will satisfy their requirements. Conversely, the review of local purchase items mentioned above will return items to central procurement for which adherence to specification is a serious requirement.

(e) The incident reported on pages 15 and 16, part III, of the staff report in connection with a typewriter repair at the Oakland APD appears to be an isolated occurrence and not a condition prevalent throughout the Air Force. Normally, each APD has an imprest fund, and minor requirements, such as noted, are satisfied by cash purchasing. The Air Materiel Command is investigating the SMAMA operating procedures and will take necessary action to correct the deficiency.

(f) From the examples reported, it is not clear as to how the staff arrived at the conclusion that local purchase is contributing materially to the generation of excess and surplus property. Normally, local inventories are maintained on a minimum essential basis and recurring needs are repetitiously purchased as the need arises. Due to changing programs and other factors, generation of excesses cannot be completely eliminated. Here, again, evaluation of the local purchase concept must be compared to the alternative of centralized procurement. Base installations would requisition from a depot the same requirements which would otherwise be procured under local purchase. Such requirements must be extended, balanced with known programing information, etc., to obtain future estimated quantities for procurement and storage in the depot system. It is believed that the potential generation of excess and surplus is considerably less where local require-

ments are purchased only as the requirement arises. Local purchase excesses are reportable to the DOD screening agency (IMUA) under the same criteria as centrally procured items. Nonreportable excesses are screened within an economical shipping radius. Line items whose value exceeds $2,500 cannot be purchased locally without prior clearance from the depot. When items are changed from central procurement to local purchase, requisitioning upon the depot is required until depot stocks are exhausted. Additionally, depots are required to circulate listings of local purchase items in stock at the depot annually to bases. Bases may requisition up to a 3-year requirement.

(*g*) In general, it is not believed that an excessive number of common items have been authorized for local purchase within the Air Force. Approximately 164,000 items have been selected for local purchases as opposed to the original goal of 300,000 by Hq USAF in 1952 as a result of the Bonner committee recommendations.

(*h*) In instances where items obtained from other military departments are converted to local purchase within the other department, such items are also adopted as local purchase items within Air Force. However, except for certain prescribed categories, it is believed that the difficulties and costs involved in coordinating all individual item local purchases throughout the services would not be equalized by the theoretical benefits envisioned.

Air Force Procurement Instruction (AFPI)

PROBLEM

The committee report states that a common complaint received was that too much time is spent by both the Air Force and industry in trying to interpret the Armed Services Procurement Regulation (ASPR) and the Air Force Procurement Instruction (AFPI). Additionally, the report states that variation between ASPR and AFPI provisions can result in additional confusion and misunderstanding.

COMMENT

As an example of a provision that is difficult of interpretation, the report cites AFPI 1–453 (i), covering the subject of ratification by one person of the acts of another. While we believe that this example is an isolated case, we must agree that the cited provision, while legally correct, does not meet the primary purpose of the AFPI, which is to give guidance in clearly understandable language. Accordingly, action has been taken to redraft and clarify the particular provision.

The report also cites an apparent variation between ASPR and AFPI in the use of the incentive type contract. It states that ASPR 3–403.4 (a) (3) permits an adjustment of the billing price in such a contract, within a ceiling limit, but that page 20 of AFPC has no such limitation. The cited AFPC covers a fixed price incentive contract with the firm target fixed at the outset. In this type of contract, the term "billing price" is defined as the price paid to the contractor for delivery of items pending final price revision. The ceiling is the maximum amount which the Government will be

obliged to pay under the formula arrangement, and this is established at the outset. Hence, there is conformity between the ASPR and the AFPI.

We must stress the essentially beneficial effects which have been gained through publication of the AFPI. Prior to its issuance, there was no single source to which Air Force procurement personnel could refer for uniform guidance. Rather, the multi-level publications comprised a 4-foot high collection of regulations, directives, and instructions. This chaotic condition was eliminated by the issuance of the AFPI in December of 1954. Here, for the first time, we had a single source of guidance for Air Force procurement policy and procedure; keyed to corresponding paragraphs of the ASPR; and, most important, applicable to all echelons within the Air Force, from the Secretary, through the Chief of Staff, to base level, throughout the world. This, we submit, was a giant stride forward in an effort to improve efficiency and effectiveness in the area of procurement operations, in all its aspects. We recognize, of course, that it is not perfect, and constant effort is being made to improve it.

Extent of Advertised Procurement

PROBLEM

The staff report expressed disappointment in the fact that there was not a greater increase in the use of formally advertised procurement in fiscal year 1957 over that of fiscal year 1956.

COMMENT

The total dollar value of Air Force procurements within the United States for fiscal year 1957 was $8.79 billion. Of this total, $7.73 billion, or 88 percent, represented procurements of items of ever-increasing complexity, such as missiles, missile powerplants, aircraft, aircraft engines, bombing and fire-control systems, electronic equipment, and research and development—none of which were susceptible to procurement by formal advertising. The potential was further reduced by $0.16 billion, representing small purchases ($2,500 or less per procurement) negotiated pursuant to title 10, United States Code, sections 2304 (a) (1) and (a) (3). Thus, the actual maximum potential for formal advertising in fiscal year 1957 was $0.9 billion, or 10.2 percent of the $8.79 billion total procurement effort. Of this $0.9 billion potential for formal advertising, $0.48 billion, or 53 percent, were spent in procurements by that method.

An additional factor militating against a larger formal advertising total for the Air Force in fiscal year 1957 was its reliance on other military departments and Government agencies for procurements in an amount of approximately $1.5 billion. This total comprises procurements made for the Air Force pursuant to (i) single department procurement assignments to the Army and Navy for such items as subsistence, clothing, petroleum, construction, and commercial vehicles, and (ii) inter-Government agency procurements by the General Services Administration, the Federal Prison Industries, Inc., and the National Industries for the Blind. By far, the bulk of supplies and

services purchased for the Air Force in either of the foregoing manners are of the type readily procured by formal advertising.

Notwithstanding the foregoing factors which reduce the Air Force's potential for formal advertising, a definite trend toward greater use of formal advertising has been established during the past 5 years. The percentage of formally advertised procurements has steadily increased from 1.5 percent in fiscal year 1953 to the 5.5 percent in fiscal year 1957 reported by the staff. Stated another way, the percentage of formal advertising has been more than trebled in these 5 years.

In our efforts to insure continued increase in our use of formal advertising in the relatively small area suitable for such use, we have taken the following actions:

(*a*) During fiscal year 1957, increased emphasis on the use of formal advertising was placed at all levels of the Air Force. A representative from the Assistant Secretary of the Air Force, Materiel, visited practically all Air Materiel Areas and Depots and discussed with directors of procurement, division chiefs, and contracting officers the matter of increasing formal advertising.

(*b*) Thereafter, a team of highly qualified personnel from the Air Materiel Command also visited all Air Materiel Areas and Depots to review procurement actions and to provide management guidance to remove impediments to the maximum use of advertised procurement procedures.

(*c*) We stated last year that an entirely new section of formal advertising had been prepared in the Air Force procurement instruction to provide contracting personnel with clear and comprehensive guidance. This has since been published. Furthermore, as the result of the visits by the AMC team referred to above, additional revisions are being comsidered to lend further emphasis in this highly important area.

(*d*) A two-step formal advertising procedure has been developed and service tested on a limited basis. It offers a technique of advertising for certain items which previously were negotiated due to lack of adequate specifications. This method provides for the submission of technical proposals, without prices, by interested contractors, which are reviewed by our laboratories to determine if an engineering capacity has been demonstrated concerning the desired item, as step 1. In step 2, the contractors who have submitted a satisfactory technical proposal are provided an opportunity to bid under normal advertising procedures, and award is made to the lowest responsive bidder. This procedure is being carefully evaluated to determine its feasibility for broader application.

(*e*) A new AFPI implementation of ASPR, part 2, section IX, governing the acquisition of technical data, has just been published. We believe it will contribute materially to the elimination of troublesome questions relating to the use of necessary data in support of formally advertised procurement.

We shall continue our efforts to insure the maximum use of formal advertising within the limited potential available.

Problems in Negotiated Procurement

The staff report discusses negotiated procurement as observed in the Air Force, and refers to a series of problem areas. The significant

ones involve (1) problems resulting from inadequate or skimpy specifications, (2) technical evaluation of proposals, (3) reasonableness of prices in contracts under $10,000, and (4) sole-source procurement, These are set forth and discussed herein.

PROBLEM

The committee staff emphasized the necessity for study in the "most offending field of 'lack of plans and specifications'" to thereby reduce the use of negotiation.

COMMENT

We agree with the staff. We have been devoting considerable effort, and will continue to do so, to the problem of having adequate specifications available for the purpose of formal advertising.

We believe it would be helpful if a general preliminary discussion of the kinds of specifications and the factors affecting their preparation were first presented, in some detail, since this is an area that presents especially difficult problems to each of the military departments.

There is a fundamental relationship between specifications and procurement methods. Many of the same forces which shape the procurement method also shape the specification. However, before these relationships can be examined, it is necessary to consider the type of specifications used by the Air Force. These specifications fall into a broad spectrum. At one end of the spectrum is the design specification, which spells out in intimate detail exactly how an item is to be constructed, to the last nut, bolt, and rivet. A design specification could be given to a competent manufacturer, and the Air Force could receive the item desired without further documents. At the opposite end of the spectrum is the performance specification. Such a specification tells what the item must do in a particular environment. Unlike the design specification, however, it does not spell out any of the design details. Like most extremes, the two definitions are rarely realized in practice. Few pure-performance or pure-design specifications exist in the Air Force. Most of our specifications contain elements of both. Both types of specifications have some inherent advantages and disadvantages.

The design specification, by nature, becomes terribly voluminous when it describes a complex item. The time and effort required to prepare and maintain such a specification increases as complexity increases. The major disadvantage of the design specification, however, is that it requires an item to be built in an exact way, despite the fact that the function of the item is the important requirement. It is often possible for a complex item to be built exactly in accordance with drawings prepared by the original manufacturer, and yet to have the item fail to operate satisfactorily.

The performance specification, on the contrary, assures that the purchaser will receive an item which will accomplish the job for which it is intended. It allows American industry to exercise its ingenuity and its talents in meeting a set preformance requirement in the cheapest and most efficient manner possible. On the other hand, it does not provide item interchangeability, nor does it provide a concrete, exact basis for price computation. It creates logistic difficulties, be-

cause it leads to different items in the supply system serving the same purpose.

There are five fundamental factors which determine the type of specification used by the Air Force.

The first of these factors is the industrial environment surrounding the type of item which we intend to buy. Within industry, there are environments which are either common or diverse. Under diverse environments, each firm in an industry may well use many processes and techniques, trade secrets, materials, skills, equipment, and plant facilities distinct and different from those of competing firms. The tire industry is a good example. Suppose the Air Force were to advertise to all tire manufacturers for a quantity of tires, using a design specification. Under this condition, all the manufacturers would complain to the Air Force that the procurement data were restrictive, since only a producer who happened to have production techniques compatible with our exact criteria could meet our requirement. They would maintain—and rightly—that, if the Air Force would specify the performance of the tire, each of them could produce an acceptable item. Each would claim that his own peculiar industrial environment required that the tire be built in detail in his own way. In such a case, the Air Force, obviously, could not and would not use a design specification. The Air Force does use a performance specification for aircraft tires, with sufficient design detail included to insure interchangeability.

Many of our more common items are built in a highly competitive and common industrial environment. When each competitor is similarly equipped, all other factors aside, a design specification, obviously, is desirable. Under these conditions, the type of specification used will depend upon the type of industry with which we deal and the environment in which that industry operates.

The second of the five factors is the state of the art. The detail design should not be specified for an item that has barely finished laboratory testing and which has not yet suffered the trial of field tests or of commercial experience. The buying of a marginal item and the restriction on improvement beyond this marginal level will result if the design is specified and controlled too closely, too early in its life. A performance specification, in such a case, is a much better competitive document.

The third major factor is the phasing of the item being bought with the weapon system which it supports or of which it is a part. If an item is designed for common use and will have a long life cycle of 10 to 20 years, the accepted process of development, service test, and production can be followed. This 5- to 7-year cycle will give us a standard, thoroughly tested item which can be used for many years with little or no change. A design specification is ideal for this type of item. On the other hand, when a weapon system is needed to meet a known enemy threat at a known point in time, the development has to be accelerated. The items which are a part of this weapon system, or which support it, often cannot be specified in detail for several years after the start of the weapon-system program itself. To meet this type of schedule, it is necessary to compress our development, service test, and production cycle into one contract and a few short years. It is, therefore, necessary to start with a performance

specification which integrates the characteristics of the item needed with the performance characteristics of the weapon system. From the standpoint of time and knowledge, only a performance specification can solve this problem.

The fourth major factor is the fact that a design specification imposes a tremendous demand on engineering time and manpower within the Air Force to continually revise specifications and drawings, evaluate changes, modify equipment, test the equipment, and change contract and procurement data. Considering the scarcity of first-rate technical talent, and the desire to keep the size of the technical establishment in the Air Force to a minimum, the wisdom of tying up Air Force engineers with the "production engineering" of items which are already developed may be questioned. There is an urgent need for these people to develop new and better equipment to keep us technically ahead of our potential enemies.

The fifth factor to be concerned with is the character of the equipment; that is, is it primarily military or commercial in nature? For example, if the Air Force has a requirement for a commercial special-purpose vehicle, versions of which can be bought from as many as 8 or 10 different commercial sources, it would be appropriate to prepare a performance specification. All such firms would thereby be enabled to compete on the basis of furnishing items which were already in production. There are cases of contracts for items which are purely military, and which are expected to be used for a considerable period of time. Under these circumstances, the benefits of standardization, reduced training costs, improved maintenance, and reliability make a frozen design spelled out by a design specification highly desirable.

After reviewing the five fundamental factors which affect the type of specifications which we write, it is obvious that the decision is really made for the engineers by the equipment itself and the total environment in which it is developed and procured. The Air Force uses design specifications wherever the industrial environment is common, the state of the art is known, phasing to weapon system is not critical, demand for Air Force time and manpower is small, and the equipment is military in character, and possesses a long life cycle. A performance specification is used whenever these factors are at opposite extremes.

The forces which cause a specification to be prepared in a certain form are the same forces which determine the nature of a procurement. The unknowns and complexities which result in a very general performance specification are the facts of life surrounding the equipment itself. When these unknowns are sufficiently great, negotiation is used. Likewise, when all the facts about a piece of equipment are well known and pinned down, the specification becomes firm, and advertising usually ensues. In any event, the use of a performance specification and the negotiation method of procurement does not mean the absence of competition.

Despite the many complications in preparing and maintaining adequate specifications for advertised procurements, we are making every effort to attack manageable portions of the total problem. Some of the specific actions we have taken in this direction are discussed below:

(*a*) A service test will be made of a new system for obtaining Air Force drawings prepared by prime contractors. Termed the Air Force-contractor (Afcon) drawing system, this approach is designed to obtain better drawings for use in obtaining competition for follow-on or replenishment purchases and to provide the Air Force with a better system for maintaining currency. The Afcon system will first be tried in the ground-support equipment area before it is extended to other types of equipment. If this service test is successful, the Air Force can look forward to more competition in spare parts, where complexity and criticality factors are low and the engineering experience of the prime or original manufacturer is not essential.

(*b*) Under an additional service test, which is scheduled to be conducted by the San Bernardino and Sacramento air materiel areas, maintenance personnel are to screen spare-parts lists, review drawings, and apply a code to those items determined to be suitable for competitive procurements. Supply personnel, upon receipt of the coded list from maintenance, will prepare the necessary purchase requests indicating thereon the parts coded for competitive procurement. Procurement personnel will then review the purchase requests and determine the method of procurement. This procedure should assure the maximum use of competitive procurement where appropriate data is available, and should also reveal instances in which appropriate data, not available, should be obtained.

(*c*) The AFPI has been revised to require approval at a level higher than the contracting officer before the authority contained in title 10, United States Code, section 2304 (a) (10) (impracticable to obtain competition), is invoked. We believe that the tighter control thus imposed will serve as a stimulus to action to obtain drawings and specifications. In addition, it will go far toward assuring the use of currently available specifications.

(*d*) As was pointed out in the comment on advertised procurement, a further proposed revision of the AFPI is under consideration as the result of visits by the Air Materiel Command team to the air materiel areas and Air Force depots. In conjunction with this revision, consideration is being given to mandatorily requiring the use of advertised procurements when certain types of approved specifications are available. Furthermore, emphasis will be placed on the fact that specifications and purchase descriptions will be prepared on the assumption that they will be used to support formally advertised procurements.

(*e*) The two-step formal advertising procedure described under the subject, "Extent of advertised procurement," has been instituted.

(*f*) We have previously pointed out to your committee the importance we attach to the initial preparation of good specifications and drawings, and of subsequently maintaining them on a current basis. We believe that the Department of Defense standardization program will be highly significant in this endeavor. This is a tremendously broad program attacking simultaneously a great number and variety of existing items while at the same time trying to manage the countless new items entering the system. Accordingly, the progress is slow and the substantial benefits to be expected will not be realized immediately.

PROBLEM

The staff report questions the Air Force method of technical grading and evaluation of proposals, stating that it tends to prevent consideration of more than one proposal, even though many may have been received.

COMMENT

Extensive testimony was given relative to the letting of the contract cited in the staff report, AF 30(635)-6436, before the House Subcommittee for Special Investigations during the hearings which began February 25, 1957, and ended April 8, 1957. The case was reported in subcommittee proceedings No. 2. Explanation of the use of technical proposals and the method of their evaluation is set forth in detail on pages 340 through 343 of the report on the foregoing hearings. It can be summarized by stating that we require a demonstrable technical capacity on the part of sources submitting proposals to enable us to evaluate the probability of technical success. We feel that this imposes a reasonable obligation on all competitors to furnish their best engineering effort in their initial submission. In our opinion, this procedure assures an equality of treatment in the technical evaluation of the proposals, and that such proposals will thereby reflect the relative technical competence of the competing sources. We submit that, contrary to the statement in the staff report, this system of technical evaluation does not tend to prevent consideration of more than one proposal. Moreover, we do not accept the price as quoted—appropriate negotiations are conducted as circumstances warrant.

We recognize, however, that this is an area which demands the exercise of a high degree of judgment. It is impossible to apply precise predetermined formulas to make decisions with respect to a matter which requires an evaluation of a multiplicity of factors. We are, nevertheless, constantly striving to improve our practices to provide more effective guidance to procurement personnel. To this end we are experimenting, on a selective basis, with the use of two-phased advertising. This is explained in greater detail in our discussion on extent of advertised procurement. We are also service testing a new evaluation guide for the use of project engineers in conjunction with the two-step advertising procedure. In our opinion we are taking, and will continue to take, whatever constructive measures are necessary to correct deficiencies revealed through experience.

PROBLEM

In its report, the staff states that it had been advised that the Air Force is making only minimum efforts to justify the reasonableness of prices in contracts under $10,000.

COMMENT

As noted in the staff report, Air Force procurements under $10,000 totaled $572 million in fiscal year 1957. Approximately 90 percent (over $470 million) of these purchases were made by base procuring activities which buy mostly commercial off-the-shelf type items for the housekeeping and maintenance needs of the base involved. Prices

for such items have been established through competition in the open market between the manufacturers. As a result, there is little need to justify prices for these items.

However, the other 10 percent (approximately $57 million) of the less than $10,000 dollar purchases involved items of a more complex nature designed to meet particular military needs. It is in this area that sole source may have been used, and pricing may become more questionable. The military departments are required by ASPR 3-808 to see that every procurement is subjected to price analysis in some degree. The Air Force adheres strictly to this requirement. It must be recognized, however, that the degree of price analysis given a procurement under $10,000 is not going to be as searching as in procurements involving much greater amounts. Our central procurement personnel are involved in buying programs running into billions of dollars, and, while we recognize the necessity for price analysis on every procurement, irrespective of the dollar amount, we must devote most of our energies to the high value procurements.

With a limited number of personnel to perform the Air Force procurement function, the most thorough price analysis is performed on those procurements involving the most dollars. We believe that this approach offers us the best chance of receiving the most value for the Air Force dollars involved. We are making diligent efforts to hire the best-qualified people available; to increase their capabilities by education and training; to make the Government service attractive enough to retain such personnel; and to channel their efforts so as to obtain the maximum benefits for the Government.

PROBLEM

The staff report cites a contract, AF 34(601)-4026, which the staff was advised had been awarded after "competitive negotiation," but which the staff maintains was in effect a sole source procurement, awarded without negotiation as to price.

COMMENT

The advice given the staff that this contract was awarded after "competitive negotiation" was erroneous. It was in fact awarded as a result of formal advertising, based upon invation for bids No. 34-601-57-368, covering spare parts for certain powerplants.

The IFB was sent to 4 sources, 3 of which had bid on previous procurements of the items. Only 1 source responded prior to the bid opening date specified in the IFB, 2 sources did not bid, and the fourth submitted a late bid which had to be disqualified.

A comparison of the responsive bidder's prices with those paid in earlier procurements of these items disclosed that the currently bid prices were generally lower. Award was accordingly made to this responsive bidder.

The fact that four qualified sources were invited to bid, is in our opinion, sufficient to establish that this was a competitive procurement. This is borne out by the favorable comparison with previously paid prices, and the submission of a second, albeit late, bid.

PROBLEM

The staff report states that despite continued protestations of the 3 services relative to efforts to restrict the use of letter contracts and to assure their early definitization, the trend of actions pending as of the close of fiscal year 1957 continues to be fairly constant, while the dollar volume has increased substantially, and the time taken to definitize likewise increased. The report is also critical of the Air Force interpretation of "definitization," citing in particular a "billing type" contract allegedly used as an intermediate step between the letter contract and the definitized formal contract.

COMMENT

The statistics with respect to Air Force letter contracts quoted by the investigations staff are correct. Without further explanation, these statistics would certainly indicate that not much improvement has been made. It must be recognized, however, that in February of 1952 there were 795 letter contracts outstanding in the Air Force. Through close surveillance and control at all echelons, the total number of outstanding letter contracts has been reduced to 121 as of June of 1957.

As recognized by the staff, use of the letter contract cannot be eliminated. It is a very necessary and useful procurement instrument. In our procurements of complex weapons systems and high priority projects, whereby we are continually forcing the state of the art in such areas as ballistic missiles and high-performance aircraft, it is becoming more and more difficult to forecast a date when firm statements of work or definitive specifications can be established, thereby permitting execution of a definitive contract. Yet, in this vital area, it is imperative that our contractors be given presently binding commitments to enable them to commence work.

Furthermore, these highly complex, advanced items are the very ones that involve our largest dollar expenditures, which accounts for the significant dollar value of Air Force letter contracts. For example the dollar value (amount contractors are authorized to expend) of 7 letter contracts currently outstanding is approximately $437 million. These contracts are for the ATLAS and THOR missiles, B–58 aircraft, B–52G aircraft, a ballistic early warning missile system, a defensive ECM system, and a fire control system. Moreover, these items and their ancillary components, in varying stages of development, require considerable time to reach complete agreement on involved engineering and pricing problms before a definitive contractual instrument can be prepared. Under such circumstances, we feel that an average time of 125 days for definitization of letter contracts involving intricately complicated procurements is commendable and reflects our unremitting efforts to control closely the use of letter contracts. This we will continue to stress.

It is evident from the staff report that there is a misconception as to the Air Force's method of definitizing letter contracts. We feel that this misconception stems largely from the unfortunate use of the loose term "billing type" contract by Air Force personnel who discussed this matter with the staff without clarifying the precise type of contract

under discussion. There is no intermediate step (or contract) between a letter contract and a definitive contract. There are, however, different points in time in a definitive contract at which initially firm prices are agreed upon. For example, the fixed-price incentive contract with initial firm target, authorized by ASPR 3–403.4 (a) (1), establishes the target price at the time of definitization. On the other hand, the fixed-price incentive contract with delayed firm target, authorized by ASPR 3–403.4 (a) (2), establishes such a target at a point early in production, but not at definitization (outset of the formal contract). It is this latter type of contract which was referred to in the report as billing type contracts. Both of the foregoing types of incentive contracts are recognized by ASPR as definitive contracts, not letter contracts. Except for the technique of establishing the price, these contracts contain complete agreement as to all other contractual provisions, including a description of the items, delivery dates, patent license rights, Government-furnished property, if any, etc. They are a special form of price revision contract, whose definitiveness is not altered by the authorized method of establishing a pricing formula on a delayed basis.

Price Redetermination Contracts

PROBLEM

The staff report states that action to assure timely repricing of contracts has not been as effective as it should have been, and that delays in redetermination permit the contractor to use at the negotiating table cost data for the entire contract, whereas the contracting officer has such data only for the initial 40 percent of production.

COMMENT

As a management tool to insure timely contract repricing, the Air Force has established, in AFPI 3–2007, a requirement for a comprehensive report on the status of price redetermination workload. This Air Force report served as the source of information for the staff report's statement that as of June 30, 1957, the Air Force had 220 contracts at or beyond the effective date of redetermination. This figure, contrary to the statement in the staff report, represents all redetermination contracts in such status, and not just those in excess of $300,000. The same Air Force report showed that 63 of these 220 contracts were delinquent as to redetermination action when measured by the time standards set forth in the AFPI. These standards are intended as average time for the average contract, without any provision for the complications which experience has shown can be expected on a certain percentage of all contracts, despite the most scrupulous care and precautionary measures.

We are, nevertheless, fully aware of the importance of timely redetermination and will continue to strive to attain that objective. Our improvement in this area is best illustrated by the fact that we have reduced the number of delinquent redeterminations from 149 in 1954 to 63 in 1957.

We recognize, as does the staff report, that the contracting officers would be at a disadvantage in price revision negotiations were the con-

tractor permitted to negotiate from the position of having actual cost data available to him but not to the Government. Air Force contracting officers require the latest cost information available at the time repricing is to be conducted. While a few of our contractors have been reluctant to reveal the necessary cost data up to the effective point of redetermination, we have been able to persuade them of the reasonableness of the request for this data.

The Armed Services Procurement Regulation Committee, in recognition of this problem, is developing uniform price redetermination clauses for the military departments which will require the submission of essential cost information as and to the extent that such information becomes available (to the contractor) at any time prior to agreement on redetermined prices. We expect that their adoption will be instrumental in overcoming this problem area.

Contract Administration

PROBLEM

The staff report states that contract administration in general leaves something to be desired and that an inherent weakness is created by splitting responsibility for contract administration among individuals and among officers. In this respect, it points out specifically that in the Air Force the administration of contracts is not the responsibility of the procuring contracting officers, and, moreover, that this important function is performed by air procurement districts and Air Force plant residencies throughout the United States.

COMMENT

The Air Force practice is to use its contracting officers in areas of specialization as a management technique to assure the highest degree of efficiency in each of the areas involved, at the same time retaining the "team" concept to afford continuity and cohesiveness of action.

We have developed an efficient field organization charged with the specific responsibility for the overall administration of contracts assigned. Upon execution by a procurement activity, each contract is assigned to an air procurement district or an Air Force plant residency, as appropriate, for administration. The Air Procurement District Office, selected to administer a particular contract is the one which is located as near as possible to the place where the work is to be performed. Air Force plant residencies have been established at major contractors' plants where the scope of the contract activity warrants such action. Upon receipt of a contract from a procuring activity, the administering office designates a specific contracting officer as "administrative contracting officer" (ACO) for the purpose of administering the contract in accordance with its terms and in accordance wih applicable regulations. The primary duties of an ACO are to safeguard the interest of the Government and to assure timely performance by the contractor under the contract. Each administrative contracting officer is assisted by one or more cost analysts, property administrators, production specialists, quality control inspectors, and other technical personnel. The contract administration organization

affords to the administrative contracting officer built-in controls to cope with production, financial and quality control problems. The administrative contracting officer is required to advise all interested activities of such problems which may develop during his administration of the contract.

Air Force procurement instructions covering the issuance of contract change notices (which do not provide for price or cost adjustment) are explicit and provide, among other things, that they may be issued only when the urgency of the situation precludes negotiating and executing an appropriate change order or supplemental agreement. Contractors are required to submit a cost quotation within 60 days after receiving a contract change notice. It is the responsibility of the administrative contracting officer to followup with the contractor so that quotations are promptly submitted. He is authorized to approve extensions of time but is directed to exercise such authority sparingly and only upon a strong showing by the contractor that prompt submission of the quotation is impossible or would have a demonstrably adverse effect upon production. Within 30 days after receipt of a statisfactory cost quotation or notification that no costs are involved, the contracting office must definitize in a contractual document, all contract change notices covered by the quotation. The procuring contracting officer is responsible for the negotiations.

Air Force procedures governing the issuance of instructions affecting contract modifications are explicit. The records to be maintained and levels of approval required for each change have been standardized throughout the Air Force. Formal records are maintained and a distribution list for all changes is prescribed. The overall controls are effective.

The importance of liaison between audit and procurement has been recognized by the Air Force for some time. Liaison offices of the Auditor General are in operation at AMC, ARDC, and AMA's and depots and are furnishing valuable assistance to procurement personnel. A portion of each auditor general staff at every AMA and depot with central procurement activity is devoted to "procurement survey" work. An average of one man is specifically assigned full time to this work at each AMA and depot. In addition, nine people are assigned to Headquarters AMC (not including the office chief) to "procurement survey" and contract liaison work. Headquarters Auditor General has assigned one man in the office of the Assistant Auditor General for special audits full time on "procurement survey" matters. As required, district office personnel are assigned special projects in the procurement survey field. Contract audit installations also contribute audit effort on directed audit programs, generally in areas of administration of contracts.

The overall plan for "procurement survey" includes directed programs of special interest areas under the project monitorship of a lead district or the liaison office (Headquarters AMC). Participation in the audit of these programs may include auditors at AMA's, Air Force depots, Air Force plant residency offices, or APD locations. In addition, a program for the continuous review, on a selective basis, of contracts awarded by Headquarters AMC has been implemented by the liaison office (Headquarters AMC). The frequency

of the directed audit programs is at the rate of approximately 10 each year. These cover such subjects as:

(*a*) Review of spare parts pricing.

(*b*) Review of ECP procedure (engineering change proposal).

(*c*) Validity of the DD Form 350 reports (individual procurement action report).

(*d*) Review of letter contracts.

(*e*) Review of small business activity.

Other programs in the development stage include:

(*a*) Review of "open" (indefinite delivery) contracts.

(*b*) Review of maximum utilization of competitive contracting.

The "procurement survey" audit activity has been functioning for 6 years at Headquarters, AMC and approximately 3 years at the AMA's and Air Force depots. No problem presently exists as to manpower for the mission. The assistant auditor general for special audits, in coordination with the other assistants auditor general and Chief, Liaison Office (Headquarters, AMC), is responsible for the overall planning of the mission. All districts and the Liaison Office (Headquarters, AMC) are actively engaged in performing the mission.

We feel that the Air Force policies and procedures in the area of contract administration, as outlined above, provide an effective framework within which to conduct this vital aspect of our procurement effort.

Contract Termination

PROBLEM

The staff report notes that while Army and Navy regulations provide for termination of contracts, whether for convenience or default, by the procuring contracting officer, Air Force regulations provide for referral of proposed default actions to a central authority. The staff report seriously questions the need for this different approach by the Air Force, particularly in view of reprocurement delays, added costs to the Government, and ineffective control of delinquent suppliers. The report also states that Air Force regulations have the effect of impeding rather than assisting the procuring contracting officer in taking orderly and timely action to properly and effectively deal with delinquencies; and, moreover, that the need for timely reprocurement is dwarfed by regulations on termination.

COMMENT

The Air Force, through its own study of termination procedures, had arrived at the same conclusion reached by the staff with respect to centralization of contract termination authority. As a result, on February 10, 1958, authority to terminate contracts for default was redelegated by Headquarters, Air Materiel Command as follows:

(1) To Air Materiel areas and Air Force depots with respect to contracts issued by those activities;

(2) To Air Materiel areas for contract issued by major commands other than AMC and ARDC; and

(3) To the Air Research and Development Command for contracts issued by that command (except for default cases arising

out Wright Air Development Center contracts, since WADC is physically located at Wright Patterson AFB, as is Headquarters, AMC).

Default actions arising out of contracts issued by buying activities at Headquarters, AMC will continue to be handled by the Headquarters, AMC Readjustment Staff Division.

We feel that this decentralization will largely eliminate the delays cited in the staff report and will result in more effective control over delinquencies. (We must, however, point out that the average length of time required to complete a default action was 54 days, not 90 as stated in the report.)

In effecting the decentralization, we have not vested authority for termination for default in the procuring-contracting officer. Rather, in keeping with our concept of areas of specialization in the contract field, such authority has been vested in readjustment (termination) personnel of the activities listed above. Our experience has been that the use of specialists in each of the contract areas (procuring, administering, and terminating) obtains more efficient performance and results in each area, with overall benefits to the Government.

In supporting its contention that the need for timely reprocurement is impeded by Air Force termination regulations, the report cites several specific cases. As a matter of fact, our regulations specifically provide for timely reprocurement action where essential. AFPI 8-2006 (g) states: "Such reprocurement may, however, be effected *prior* to the notice of default cancellation in those instances when the reprocurement meets the criteria for public exigency contained in ASPR 3-202." [Italic added.] We are not aware of any instance where urgent Government requirements were not fulfilled because reprocurement could not be made during a default action.

At the same time, it must be borne in mind that where an emergency does not exist, then it is in the Government's best interest *not* to effect reprocurement until (i) it is determined that a basis for default action does exist and (ii) the contract is terminated. The Comptroller General of the United States, in decision B-85968 rendered on August 2, 1949 (vol. 29, pp. 57-58 of Decisions of the Comptroller General of the United States), held that where a reprocurement has been effected, the excess costs occasioned by such reprocurement because of the default of the original contractor may not be charged against the contractor unless the contractor's right to proceed with delayed deliveries *had been terminated by written notice to the contractor.* [Italic added.] Thus, if a reprocurement is made prior to the issuance of a default termination, the Government would be estopped from enforcing the assessment of excess costs of the reprocurement against the defaulting contractor.

The staff report further suggests that any investigation to determine the contractor's liability should be made after, and not before, termination. This suggestion ignores the fact that the delinquency, under the very terms of the contract, may be excusable, and that therefore the delinquency does not, per se, denote that the contractor is in default. Default action requires an investigation of the facts to support the determination. Precipitous unwarranted default action could result, through adverse financial consequences, in removal from the defense program of a contractor (oftentimes a small business con-

cern) who is doing essential work on other Government contracts, not only for the Air Force, but for the other Military Departments as well. It is only in those instances when the contractor has failed to meet the delivery schedule, and has no excusable reason therefor as defined in the contract, that the Government has the right to terminate for default.

The Air Force has an active program designed to make procuring activities more keenly aware of contract delinquency matters. Monthly reports are sent to each such activity showing the status of their contract delinquencies and the number of such cases submitted for default. Staff surveillance visits are made to these activities, the delinquencies discussed, and methods of correcting them suggested. Training programs are conducted, which programs have brought into sharper focus for procuring and terminating personnel the problems inherent in contractor delinquencies and have resulted in notable improvement in the handling of such problems within the Air Force.

Deficiencies in Europe

PROBLEM

The staff report states that the largest single factor causing the delinquency of Air Force contracts in Europe was the failure of the Air Force to meet its contractual obligations in providing Government-furnished property (GFP) in a timely way to its contractors. The report also cited inadequacies in the materiel requirements list (MRL) and the qualified products list (QPL) for Europe as factors contributing to delays and increased costs in the overhaul of USAF aircraft and engines in the European theater.

COMMENT

The problem of providing Government-furnished property in a timely manner, and the adverse effects on our overhaul programs for failure to do so, as cited in the staff report, has been recognized by the Air Force. Our efforts in the past 12 months have, we feel, resulted in considerable progress in alleviating this problem area. Nevertheless, such efforts will be continued until the desired results are obtained.

Approximately 1 year ago a special committee was established at headquarters, AMC, to make an overall study of the contract maintenance program, to isolate our problem areas, and to take necessary corrective actions. Some of the committee's accomplishments to date are:

(*a*) Improved delivery of kits and provisions for preplanning information from major commands prior to delivery of aircraft to IRAN facilities (AMC Regulation 65–43 and T. O. 00–25–4).

(*b*) Provision for adequate lead time to contractor in order to improve his supply position (AMC Regulation 65–48).

(*c*) Initiation of a project to improve materiel requirements list (MRL) procedures and their validity.

(*d*) Written guidance to AMC supply organizations, emphasizing the need for improved supply discipline in providing timely and effective supply support to maintenance contractors.

(*e*) Planning and development of directives relative to support of overseas contractors directly from Zone of Interior prime AMA's and AFD's.

(*f*) Simplification and consolidation of procedural matter. To date, 15 directives have been written, revised, or canceled.

The Air Materiel Command took action recently to redistribute to overhaul facilities in Europe on a prorated basis, all J–65 engine spare parts formerly stocked at the Chateauroux Depot. Additionally, in the event that there is a deficiency in spare parts required by an overhaul facility, it is authorized to requisition directly from the United States prime depot, and the required parts will be furnished on an expedited basis.

While improvements have been made, supply support of the contract maintenance program has not yet fully reached the desired effectiveness, and our efforts within this area will be continued until we achieve our objective.

The problem of adapting the materiel requirements list and qualified products list prepared on the basis of continental United States experience, to the European industrial and market capability has, in the past, caused difficulty in procurement and production efforts in that theater. This was one of many contributory factors to failure listed in the cited case of Contract No. AF 63(231)–577.

Realizing the need for individual treatment of procurement and production procedures in the foreign industrial complex, certain flexibility was considered necessary. Consequently, effective with the fiscal year 1959 program, authorized requirements for aircraft IRAN and engine overhaul for the European theater will be furnished the European Area Air Materiel Area at Chateauroux by the lead aid materiel area in the United States. Upon receipt of these authorized requirements, the European Area Air Materiel Area will estimate theater contractual capability by type, model, and quantity of items required to support the overhaul programs. This information will be sent back to the lead air materiel area in the United States.

IRAN overhaul procurement action on overseas sources will be initiated after the lead air materiel area determines the workload to be accomplished, insures supportability, and initiates a funded purchase request to the Chateauroux Depot. This purchase request is to reach the oversea depot at least 120 days prior to the date proposed for formalizing a contract, to insure sufficient administrative lead time. The items of support needed that are not available from overseas manufacturers will be provided by the appropriate prime depots in the United States for processing.

It is believed that these actions will largely eliminate the delays and additional costs incurred under our previous method of supplying support items for IRAN and overhaul work.

Armed Services Board of Contract Appeals (ASBCA)

PROBLEM

The staff report states that the length of time required for processing an appeal through the ASBCA is becoming so lengthy as to seriously impair the effectiveness of the procedures.

COMMENT

The report's analysis of the length of time required for processing an appeal through the Board is substantially correct. The Air Force has recognized the problem and has increased the strength of its panel from 3 to 4 and it is expected soon to reach 5 members. The staff of the Air Force trial attorney is also being augmented. The result should be faster Board and Government trial attorney action.

However, the answer to delay does not lie wholly within the Government. The disputes article in our standard contracts provides that the contractor is to be afforded an opportunity to be heard and to offer evidence in support of its appeal. The contractor in most cases retains a lawyer to present and argue his case, the bigger the case, usually the better and the busier the lawyer. These lawyers, by training and experience, are accustomed to certain procedures in the conduct of a hearing. Those are the procedures followed in the conduct of administrative boards generally. They entail a hearing after reasonable notice presided over by a Board member or hearing examiner, an opportunity to present witnesses and other evidence, an opportunity to question the witnesses on the other side, and finally a chance to argue the case either verbally or by briefs. Much of this is time consuming and there is an irreducible minimum, below which an attempt on the part of the Board to expedite action would be regarded by the contractors and their counsel as arbitrary action and depriving them of their right to a fair hearing. Certainly, requiring a contractor to appear at a hearing unprepared would result in merited criticism of the Board and of the Departments. Likewise it would be patently unwise arbitrarily to fix a hearing date and require a contractor to go ahead when his attorney or an executive or witness is sick or is tied up in another hearing. As a consequence, contractors and their counsel ask for and are granted substantial postponements; this in fact accounts for most of the delay noted in the statistics of the report. As it is, the Air Force panel averaged in elapsed time between the hearing of cases and their disposition—using the calendar year 1956–57—3.43 months, on the whole a fairly reasonable figure, when it is recognized that contractors in some cases have consumed over 6 months in preparing briefs. In defense of the contractors, it should be noted that some of these cases involve hundreds of thousands, and even millions, of dollars. Their counsel only observe the same meticulous preparation and attention that they would observe in preparing any other lawsuit of comparable size and complexity.

Actually, the average time between docketing and disposition of appeals for the Air Force panel for the period under consideration was approximately one year, which does not appear unreasonable when all factors are considered.

One other factor must be mentioned in relation to the report's evaluation of the average time required for "processing" of appeals before the Board. It sometimes happens that an appeal before the ASBCA is placed on suspense during an investigation by the Department of Justice as to possible fraud in the letting or performance of the contract. Throughout the period under study by the staff, there were at least 7 Air Force cases restored to active status which had been under suspense during a time ranging from a few months to

2 years, by order of the Department of Justice for reasons earlier indicated.

Also, cases are sometimes placed on suspense by the joint request of the parties, pending negotiation for settlement, where it appears there is a reasonable probability that they may be disposed of in that way.

The staff report makes two statements which we feel require clarification:

The statement that "The DOD contracts and subcontracts provide for an appeal by any contractor or subcontractor to the Secretary of the appropriate department from a decision of a contracting officer involving a question of fact" is erroneous. In point of fact, it is only in very rare and exceptional cases that a subcontract is so drawn as to permit an appeal by the subcontractor to the head of the Department.

Likewise, the assertion that "The appeal is referred to the Armed Services Board of Contract Appeals for hearings and recommendations to the Secretary, who—in all cases the staff understands—adopts the Board's recommendation as his decision" is also at variance with the true situation. The charter of the ASBCA provides for personal decision of the Secretary on the matter in dispute only when the contract requires such personal decision. Such a requirement exists only in older forms of contracts (now superseded), and it is only in those rare instances where the old form has been inadvertently used that the Secretary is personally required to decide a dispute.

Drug and Medical Supplies

PROBLEM

The report criticizes the system used by the Air Force for the supply of local purchase drugs and medical supplies to Air Force bases in the Pacific area and Alaska from McClellan Air Force Base, on the theory that this system duplicates effort of, and does not fully implement, the single manager concept for medical supplies.

COMMENT

What the Air Force system is

The Air Force has fully implemented the single manager system for medical materiel. Air Force medical treatment facilities in the Pacific and Alaska receive the greatest part of their medical supplies and equipment (86 percent) from the single manager wholesale stock points at Sharpe and Seattle. The nonstocklisted medical supplies shipped from McClellan Air Force Base represent only 14 percent of all medical supplies and equipment sold to Air Force medical treatment facilities in the Pacific and Alaska. The only medical items authorized for procurement at McClellan Air Force Base are nonstocklisted and newly stocklisted items not available from the single manager wholesale distribution system, repair parts for medical equipment and medical books and journals. Recurring requirements for local purchase of an item are reported to the Surgeon General, USAF, in the form of a recommendation for stocklisting the item. Many of the items recurrently purchased in 1956 have been stocklisted and

either are, or soon will be, available from the single manager depots at Sharpe and Seattle. As soon as the item is available from Sharpe, the local purchase office at McClellan Air Force Base is not authorized to procure it.

Why Air Force has this system

The supply of local purchase type medical items from McClellan Air Force Base to the Pacific area became operative January 1, 1956. Prior to that date purchases of this type of medical item had been made by depot purchasing officers with an average pipeline time of 180 days. Under these conditions, the level of medical support in the Pacific area was not satisfactory. When the Air Force established logistic terminals for the supply of Air Force LP items, the Air Force medical service arranged to have a small section within this Air Force supply system. Funding is simplified, forms are simplified, and the small quantity of medical items is consolidated with shipments of Air Force supplies to the same destination. Pipeline time for the supply of these one-time purchased items has been reduced to an average of 30 days. Medical supplies comprise a negligible proportion of the total dollar value of Air Force LP purchases at McClellan Air Force Base.

Why the items are not stocklisted

Certain medical supplies and equipment do not lend themselves to stocklisting, central procurement, and distribution through a wholesale depot system. Among these are "new" drugs, medical books and journals, and repair parts for medical equipment. The drugs stocklisted in the Armed Services Medical stocklist have been selected by competent professional officers for use by the Army, Navy, and Air Force medical services and are procured centrally in bulk by the Military Medical Supply Agency. These are the commonly used drugs which are requisitioned by Air Force bases in the Pacific area and Alaska from Sharpe or Seattle single manager stock points. For many reasons the stocklisting and central supply process cannot encompass every new or different item marketed by the pharmaceutical industry. The total demand may be too small to justify central procurement or the product may be so "new" that insufficient professional demand has been developed. On the other hand, good medical practice may require the administration of drugs which are not stocklisted and when this is the case, the drugs are provided by McClellan Air Force Base to the Pacific and Alaskan areas. Air Force directives state that local purchase is not authorized for nonstocklisted items differing only slightly from stocklisted items of identical capability, preferred trade names and proprietary products instead of stocklisted items, and prepared products which can be compounded in the hospital pharmacy.

Another category of nonstocklisted items is that of medical books and journals through which professional personnel are kept informed of the rapid advances in medical practices. New books and new editions of standard texts are obtained by McClellan Air Force Base, through open-end contracts when possible, within a few days of the time they are ordered by bases in the Pacific area.

Repair parts for medical equipment are local purchase items except for critical parts peculiar to military type equipment. It is un-

economical to stocklist, centrally procure and fill the depot pipelines with every repair part which would possibly be required for all the models of each manufacturer who supplies sterilizers, X-ray machines and other medical equipment to the medical services through the single manager.

Comments on specific statements

The medical depots in Japan, the Philippines, and Alaska stock a minimum number of recurringly required nonstocklisted items which they obtain from McClellan Air Force Base because they are not available from the single manager or locally in the Pacific area. Lists of items stocked at these depots are reported semiannually to the Surgeon General, USAF, for use in recommending stocklisting. The list from the Philippine depot on December 31, 1957, contained 40 nonstocklisted items, 39 of which were drugs. Sixteen of the thirty-nine drugs were "new" drugs which have recently been stocklisted and will in the future be supplied by the single manager. Total issues of these 40 items from the Philippine depot for the last 6 months were approximately $10,000.

The local purchase of medical requirements has been increasing each year, mainly because the system has been operational only since January 1, 1956. A continued increase at the same rate is not expected because the recurring items are progressively being stocklisted for issue through the single manager.

Although some of the supplies are procured in Sacramento and others in the bay area, all are processed through McClellan Air Force Base, not only to have a central quality control inspection point, but to package the materiel for overseas shipment. Additionally, the medical supply items are "married" or consolidated with other Air Force materiel destined for the same base or general area. The majority of shipments are made by air because of their urgent nature. Also, the medical shipment averages 7 pounds in weight and 2 cubic feet in size and is loaded on a military aircraft which is flying anyway. Medical shipments of nonstocklisted items total only 4.2 tons per month, comprising a negligible percent of total Air Force shipments to the areas. Most of the shipments to McChord are by scheduled military aircraft, not by commercial air transportation. At McChord Air Force Base the materiel is off-loaded for continued transportation to Alaska by other scheduled military aircraft. Very little medical equipment is procured by this local purchase method but those bulky items of considerable weight which may be bought are shipped by water. Only emergency shipments of medical supplies are made by commercial air transportation and then only if no military aircraft flights are scheduled.

Base stocks at McClellan Air Force Base cannot be utilized for overseas requirements because the local purchase type items requested are not normally, if ever, carried in stock by the medical supply officer at McClellan Air Force Base. There are no fiscal reasons to prevent a combined utilization if there were items in long supply at McClellan Air Force Base.

All Air Force requisitions from the Pacific and Alaska for stocklisted medical materiel go to the single manager at Sharpe and Seattle depots in the same manner as Army and Navy requisitions from these

areas. The single manager does not procure nonstocklisted items for any Army, Navy, or Air Force activity except for repair of depot stocks and to provide components for medical kits and assemblies.

Shipments of stocklisted items from Sharpe and Seattle to Air Force bases in the Pacific and Alaskan areas are made in the same manner as Army shipments, by air or water, depending upon the required date. For nonstocklisted items, shipment of small packages by military air when space is available permits a short pipeline time of 30 days.

Departmental local purchase of nonstocklisted items of medical materiel as a supplement to the single manager system cannot be eliminated if satisfactory medical care is to be given to military personnel overseas. The single manager for medical materiel agrees with the Surgeons General of the Army, Navy, and Air Force that the Military Medical Supply Agency should not take over local purchase of nonstocklisted items. It is generally recognized that the administrative costs of stocklisting, cataloging, centrally procuring, storing, and filling the overseas supply pipelines with small quantities of the thousands of additional medical items and repair parts for which there is a small or occasional demand would be far greater than any savings which could be realized by central procurement.

What the Air Force plans to do

The Air Force will continue to support the single manager concept for medical supply to the fullest extent for the supply of all medical items which the single manager determines can be efficiently managed by central procurement and wholesale distribution. Medical practice cannot, however, be completely dictated by supply considerations and the Air Force must have some method of supplying to its medical professional personnel those items required for medical care which are not available from the single manager for medical materiel. The supply of these nonstocklisted items from McClellan Air Force Base to Air Force bases in the Pacific area and Alaska supplements the single manager system effectively and responsively. It eliminates expensive overseas pipelines, inventories, and administrative overhead, and enables medical personnel to provide better professional care.

To make sure that there is no duplication of items supplied by the single manager for medical materiel and the supplementary items provided when required through the Air Force local purchase system, improved procedures are being developed to facilitate the review of those items recurrently purchased. No local purchase medical item for which there is a continued requirement will fail to be considered for stocklisting by the three medical services and subsequent supply by the single manager for medical materiel.

"Direct Support" Concept

PROBLEM

The new Air Force "direct support" concept envisions drastic reduction of stock levels at overseas depots and their eventual elimination. Its success depends upon the as yet unanswered question of the ability to supply requirements through the use of high-speed air and surface transportation. It has been implemented too rapidly and

without benefit of cost or capability studies. Some Air Force officers have expressed doubt as to the feasibility of the program. Staff inquiry disclosed there is need for very close surveillance of the program for redistribution of European depot stocks in order to prevent inventories at the bases from falling into the same chaotic conditions as prevailed at the depots.

COMMENT

The concept of direct support was under consideration for some time prior to the adoption of the improved European logistics program and was not devised for immediate implementation. A progression of many studies and tests projects in specific areas over the past 6 years and their results have led to a gradual institution of the direct-support concept. Among the first of these was a study in 1951 called a program for Air Force logistics, commonly known as the Harvard study, which was an impartial inquiry into the Air Force supply system. It concluded that the theory of abundance in materiel, including long pipelines with intermediate depot complexes overseas, was too costly and recommended their reduction and elimination. In 1952, project Red Head tested this concept as applied to the support of a B–50 wing on rotation overseas, with gratifying results. Projects Sky Way, a test of this same concept applied to aircraft engine worldwide, continued to prove the merits of direct support with greatly reduced investments in backup stocks of expensive items. During 1954 and 1955, project ALP (advanced logistics project on high cost items) was instituted to test direct support of B–47 units. These studies covered the entire logistics support responsibilities, and included a representative range of the supply and transportation requirements for the Air Force units involved. The need for improved support of the combat units by insuring the availability of resources at the point of intended use necessitated the institution of the direct support concept, and these tests in providing direct support from CONUS depots to European activities have proven effective.

While detailed studies of transport facilities have not been conducted for complete implementation of the direct support concept in the European area, there have been studies made on the airlift requirements of units on rotation and certain units permanently assigned to the European area (vol. XVI, AFM 67–1, project Star). These studies indicated that the direct support concept could be accomplished within our surface and airlift capability. Although rapid transport is an essential element in reduction of pipeline; enhancing support to using activities; reducing cost of materiel, etc., it does not necessarily follow that this element is the key link in the direct support system. It is also extremely important to have sufficient assets available at the point of intended use to insure maximum support of the peace and war tactical mission. Therefore, stocks at base level will be increased wherever necessary to provide a responsive system.

Since all of the studies on the direct support concept, indicated the need for reductions in investments, inventories, facilities, and allied functions, it was not considered necessary to conduct specific cost studies for the improved European logistics program.

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Headquarters USAF approved the direct support concept before AMC finalized the detailed plans for the improved European logistics program. AMC had the responsibility of coordinating the detailed plans with other major commands before submitting them to Headquarters, USAF, for review and comment. This coordination and review was a continuous process and resulted in numerous changes before the plan was finalized.

Air Force Cataloging Program

PROBLEM

The Defense Cataloging and Standardization Act (secs. 2451–2456, title 10, U. S. C.) required that the DOD develop, establish, and maintain a single catalog system and provides for conversion to and utilization of this system throughout the Department. The staff found that Air Force work on the cataloging project has experienced delays to the extent that many of the planned benefits are not yet being realized, and additional expenses are currently being incurred because of the necessity for maintenance of elaborate cross-reference catalog libraries at all levels.

At Air Force installations, the staff observed that many employees were engaged in "catalog research" and in posting hundreds of catalog supplements issued to correct or to add to the initial issue. Many of the employees involved were reassigned from normal duties to avoid complete chaos in the records-maintenance function. Some of this difficulty has been brought about by the fact that technical orders describing all repair parts are frequently published prior to assignment of Federal stock numbers, which often results in extensive searches through as many as three maintenance and supply echelons before identification of a needed part and assignment of a temporary number is accomplished. All this must be done before the part can be identified, located, and issued.

In a number of instances, it was pointed out to the staff that reference must be made to as many as 150 catalog supplement sheets to determine if a Federal stock number has been assigned to the item. The staff could find no valid reason why cumulative supplements consolidating numbers previously assigned are not prepared periodically. This procedure would save countless man-hours and expedite the supply action.

The extreme rapidity of changes in aircraft and aircraft parts and equipment, many of which are peculiar to one type of weapon, appears to create the most serious problems for the Air Force in the Federal cataloging program. Prompt identification of the part and the speedy acquisition by the user should be the prime considerations and should not be subservient to any other facets of the cataloging program.

The Air Force should review the present procedures followed in assigning Federal catalog numbers to parts that are peculiar to particular aircraft. It may be possible to eliminate or minimize the delay now involved and save many man-hours now spent in research to identify the part numbers. Even more important, the delay in obtaining essential parts can be greatly reduced or entirely eliminated.

COMMENT

It is true that the Air Force found it impossible to maintain its original schedule for conversion to Federal catalog data. Experience proved that the original plan was based upon a concept of conversion which was incompatible with the Air Force supply system. Consequently, a revised schedule was approved by the Department of Defense, effective December 31, 1956. It did not extend the original terminal date, however, for completion of all conversions, which remains December 31, 1958. As of the most recent quarterly report, the Air Force was completely current with its conversion schedule, and no difficulty is anticipated in maintaining this status.

While the Federal cataloging and conversion program has been in its various stages of development and implementation, the Air Force has found it necessary to maintain two completely different cataloging systems. Items not yet converted retained their identity in the Air Force supply catalogs, and bore Air Force stock numbers. As Federal cataloging data became available, preparatory to conversion, the new identifications and Federal stock numbers were published in the form of Air Force stock lists. The many problems attendant upon the transition to an entirely new and radically different concept of catalog data, multiplied by the requirement to maintain an orderly relationship between the old and the new data, have required extra funds, manpower, and publications. Temporarily, these have overshadowed the benefits that are expected from the Federal cataloging program. Now that the conversion program is almost complete, increasingly profitable utilization will be made of the comprehensive files of Federal catalog data that are being established, and the planned benefits will be fully realized.

It has always been necessary to maintain cross-references between manufacturers part numbers and the stock numbers. This requirement persists, whether we use the Air Force stock numbers or Federal stock numbers, because the manufacturers use their own specific numbering systems, and in all transactions with the manufacturer we must quote his own part numbers in order to be understood. In order to maintain continuity of cataloging data, we also have incorporated cross-references between Air Force stock numbers and Federal stock numbers in the new stock list publications. These cannot be discontinued until such times as all Air Force stock numbers have been completely purged from the supply, accounting, maintenance, authorization, and other functions of the Air Force. The cross-reference lists are as simple and direct as we know how to make them. The standard format has two columns; part numbers or old stock numbers appear in one column, and the new stock numbers are placed directly opposite. Cross-references do not contain descriptive data.

The volume of catalog research, posting change notices, and updating of supply records is an onerous, but inescapable phase of the Federal cataloging program. As each item is identified with a Federal item description and is assigned a Federal stock number, the former Air Force data must be replaced throughout the supply system with the new identification. Meanwhile a cross-reference must be maintained to show what happened to the old Air Force number. As an indication of the workload involved in this area, the Air Force has

converted an average of more than 50,000 items per month since July 1, 1956.

Technical orders are prepared as equipment enters the Air Force supply system and may be retained, without revision, for such periods of time as the equipment is an active Air Force item. Consequently, technical orders for older items of equipment were published prior to the Federal cataloging program, and contain Air Force stock numbers which were current at that time. In the process of converting item identifications, stock numbers, and records to Federal catalog data, it was determined that it was neither feasible nor economical to revise technical orders each time a conversion occurred. Action to include Federal stock numbers in technical orders is taken at the time a normal revision of a technical order is required. Recognizing that considerable research was required, a cross-reference index of part numbers to Federal stock numbers (a basic and two supplements) has been developed and distributed, as Federal stock numbers became available. A master consolidation of this publication is scheduled for distribution in the fall of 1958. It will provide a single document to use in relating an item known only by a part number to an applicable Federal stock number.

Within the funds available to the Air Force for printing, and subject to the prior demands for publishing Federal catalog data, we endeavor to issue cumulative revisions to Air Force supply catalogs on a periodic basis. Under ideal conditions, these revisions are published about twice each year, as warranted by accumulated change notices. We also propose to publish a final USAF supply catalog for each AF property class, consolidating all conversion references pertaining thereto. These will be useful as cross-references until Air Force stock numbers have been purged from all documents pertaining to Air Force items of supply.

Historically, cataloging actions on peculiar aircraft parts have been a problem to the Air Force. The problem can be broken down into two basic areas. The first and most difficult to cope with has been obtaining the technical identifying source data required to support a stock number assignment. The second has been the timely processing of data to the stock numbering agency.

To resolve the area of identification data the Air Force has enlisted the aid of industry. Specification MIL–D–26715 (USAF) was prepared and made a part of our provisioning type contracts beginning in May of 1955. Under this procedure, cataloging action is initiated at the time a spares item is approved for release to production. This is normally 9 months to 2 years in advance of the first shipment of items. The application of the specification is rapidly alleviating our data problem. At the present time, there are over 1,400 prime contracts containing the specification as a contractual requirement. Naturally there was the sizable job of training and indoctrinating contractors. Detailed surveillance continues to be required.

The second area, timely processing to a stock numbering agency of the identification data, has shown a definite trend toward improvement. This improvement can best be illustrated by the fewer complaints on the part of our prime suppliers on lack of stock numbers to effect shipment. During the last several years a completely mechanized control system has been established throughout our depot structure

to assure stock number assignments on a timely basis. Firm processing times have been established at depot level on data submitted by industry. In order to speed the process, Headquarters AMC has been eliminated as a central Air Force cataloging contact point and our depots deal directly with the central cataloging agency in obtaining Federal stock numbers. While we have not completely eliminated the problems in either of these areas, improvement has been substantial and steady.

Effectiveness of Supply Support

PROBLEM

The committee staff commented on various factors which have a direct bearing on the effectiveness of supply support and the ability of a base to perform its mission. Chief among these are the low fill rates at both depots and bases, which result in high AOCP/ANFE rates and encourage cannibalization as a normal means of supply support; insufficient emphasis on the low value, or "bits and pieces" area; and a lack of proper tools used in the maintenance of aircraft.

COMMENT

As a result of extensive studies made separately and jointly by the Air Force and the Rand Corp., the Air Force is well aware of the underlying causes for low depot and base fill rates and high AOCP/ANFE rates. The principal cause is inconsistent or random demand for items coupled with the infeasibility of the Air Force attempting to finance inventories for the complete range of items which would be required at all Air Force bases to further improve the fill rate or AOCP/ANFE rates. Recognizing that such inventories are economically prohibitive the Air Force does not plan on a 100 percent fill rate, but—in lieu thereof—employs supply procedures which assure that those items not immediately available at a base, will be delivered in a minimum period of time. For example, we have put into effect the supply priority requisitioning system, which provides for the assignment of top priorities to requisitions for those items which have caused, or are about to cause, an aircraft to be placed on AOCP/ANFE status (this includes the fastest means of transmitting and processing requisitions, and the fastest transportation available for shipment of the items); the installation of a tranceiver network which provides for the instantaneous electrical transmission of requisitions (this has reduced transmission time for requisitions, even from overseas point of origin to the continental United States supply source, from several days to a matter of hours); and the implementation of the weapons system supply management concept which vests within a single AF control point the authority and responsibility for complete supply support of an air vehicle, thus insuring that all aspects of supporting a particular air vehicle are given special attention.

With respect to depot fill rates there are many factors which prevent 100 percent effective supply support. These include slippages in production by industry, unpredictable demand, complexity of new weapon systems, and others. However, from an overall viewpoint, support provided by the Air Materiel Command network of depots

and related support systems is considered to be highly effective. In fact, the worldwide AOCP/ANFE rates for all aircraft have been, for a prolonged period, averaging less than 6 percent and 9 percent, respectively.

With regard to the staff report references to cannibalization, the Air Force does not condone this as a normal means of supply support but does authorize prudent controlled cannibalization where necessary to maintain combat effectiveness.

It is true, as reflected in the staff report, that the Air Force concentrated its initial efforts on the selective management of high-value items, because these items represent the bulk of its dollar inventory investment. However, the Air Force has by no means neglected the low value, or "bits and pieces" area. The low-value program was vigorously pursued during 1957 and much progress was made. The application of commonsense policies and procedures keynoted the improvements. Economic order principles were applied to stockage at both bases and depots, and varying stock levels established, based on the dollar value of past issues. In most instances, this should result in increased levels and become a pertinent factor in the reduction of AOCP/ANFE rates. These added benefits are derived with little, if any, increase in total dollar investment, due to savings which accrue in administrative and transportation costs through reduced order and shipping frequency. In addition, Air Force installations are permitted to retain low-value items which are above normal stock levels if they will be depleted by normal usage within a reasonable period of time.

Other recent improvements include the establishment of "retail stores" for the distribution of low cost, centrally procured items, and the implementation of "repair kit" and "bench stock package" procedures for improving customer service and accelerated overhaul and repair of end items.

Retail stores are located as near as possible to using activities, and contain a complete range of low cost, frequently used items needed by aircraft and automotive maintenance, and similar activities, primarily in the carrying out of their overhaul and repair functions. Customer self-service is a salient feature of the retail store, and helps to reduce personnel requirements and encourages the use of substitute items.

A repair kit consists of many "bits and pieces", procured in "kit" form. These kits were adopted when studies revealed that it is more economical to replace many low-cost items on a 100 percent basis when repairing selected end articles. The use of these kits has reduced actual overhaul time for the end articles, reduced the number of items which would otherwise have to be requisitioned, stored and issued on an individual basis, and has saved packaging and transportation costs.

A "bench stock package" consists of some 1,750 low-cost items required to support a new aircraft just coming into the system. These bench stock packages were adopted because it is economically unsound to stock all bases, which are assigned new aircraft, with a complete range of all items which might be required during the initial period of operation. The package is a one-time issue and is used only until sufficient consumption experience has been obtained to warrant stockage of individual items on a quantitative basis. It has been deter-

mined that these bench stock packages have contributed directly to a sizable reduction in the AOCP rate.

The management improvements cited, when fully implemented, should greatly minimize the shortages of authorized "bits and pieces." The Air Force will continue to place emphasis on new and worthy innovations in the low-value area.

With respect to statements concerning shortages of portable test equipment and tools, it is the considered opinion of the maintenance people of the Air Force that the situation is not as serious as indicated. However, in view of the concern expressed by the committee staff, an Air Force-wide survey will be made to determine the scope of the problem.

Combat Readiness Training

PROBLEM

The number of obsolete aircraft in the inventory for the purpose of providing combat readiness training for administrative personnel.

COMMENT

Two points are paramount when considering the problem. First, is there a need for administrative personnel to continue flying when they are not directly connected with a tactical unit? Second, if there is a need for them to fly, what aircraft can be made available in keeping with necessary budget limitations.

All Air Force officers must continue active flying so long as they have responsibility for conducting or directing air operations at any level. Regardless of current assignment, an officer must continue active flying in order to stay abreast of aviation advances and to know the limitations and capabilities of aircraft, and—most important of all—gain the confidence of the men he is to lead by knowing and understanding their problems. If an officer loses professional competence through reduced flying, or ceases flying after being assigned to staff or administrative duty, he tends to freeze his thinking to the doctrines which were in effect at the time he ceased to fly. The Air Force has never accepted, nor operated under, the principle that air crews could be ordered into combat by an officer who was himself not capable of operating an aircraft. A combination of maturity and experience is an invaluable asset in the actual aerial operation of aircraft. It is an absolute essential for command.

The worth of an Air Force officer to the Nation must be measured by his adaptability to a combat situation. The expression that the battle is the payoff could not have been more realistically illustrated than in the case of our Korean experience.

The performance of the rated Air Force officer in that conflict was outstanding. It was only through a continued program of flying training which allowed them to retain skills during peaceful years that they were able to perform as they did. An individual illustration is Lt. Col. James Jabara who just prior to assignment to Korean operations (where he became a triple ace) was an adjutant at Langley Air Force Base. Prior to that time other assignments filled by Lieutenant Colonel Jabara from the end of World War II included those of

personnel and finance officer. The same is true of a very large percentage of pilots who flew tours in that theater. Of the 32 aces coming out of that action, all but 9 served in administrative or technical assignments prior to the start of that operation. The experience, leadership, and ability of these veterans, and officers like them, can be retained only through the proper amount of continued flying training. The responsibility for the operation of a modern combat unit rests on every executive in the organization, and demands not only administrative ability but an intimate day-to-day knowledge of flying techniques and procedures.

With the aim of providing greater numbers of more modern aircraft for the proficiency flying program, the following steps have been taken:

The USAF has increased the number of T–33's in the proficiency program. There are currently more jet qualified pilots flying for proficiency than there are jet aircraft to accommodate them. Andrews Air Force Base is a typical example where many jet qualified pilots fly conventional aircraft due to the lack of jet equipment.

The latest aircraft program (PX 60–1) calls for the introduction of the jet UT–X into proficiency flying starting in fiscal year 1961.

The older aircraft are being deleted from the proficiency flying program as fast as possible. The present plan is to eliminate the B–25 and B–26 from the program (in fiscal year 1958 or early fiscal year 1959). The C–45 will remain in the inventory until late fiscal year 1961 due to more economical operating costs. The C–47 is not planned to phase out in any appreciable quantity until fiscal year 1962 as it is more desirable from the standpoint of furnishing much needed auxiliary airlift.

In the report a statement is made to the effect that aircraft maintained and provided for training included C–47's, L–19's, and B–29's, and other types of similar vintage now obsolete or never designed for combat purposes. The C–47 as previously stated provides much needed auxiliary airlift. The same is true of the C–45. The B–25's and B–26's were at one time first-line combat aircraft; the B–26's being used in the Korean conflict. The L–19's and B–29's have never been authorized for combat readiness training. The few B–29's remaining in the inventory are used for special reconnaissance missions. There is only one L–19 in the USAF inventory.

To keep abreast of current problems, associated with flying, pilots must continue to fly. The program best designed to accomplish this objective would be one in which only first-line aircraft are used. It is obvious, however, that the cost of such a program would be prohibitive. As a compromise solution we use second-line aircraft, the operation of which is considerably less expensive. The second-line aircraft are of sufficient complexity to provide flying experience which will enable a pilot to keep abreast of the continuing changes in instrument flying techniques, air traffic control and communication procedures. In addition, it provides the pilot the means to maintain his proficiency in the basic pilot skills, especially that of instrument flying which is fundamentally the same without regard to the type of aircraft. Hence, the training facilitates and accelerates his transition back to first-line aircraft at considerable savings in time and money.

A program was begun several years ago to identify and remove

from flying status those individuals whose potential for future rated assignment is low. Last year approximately 1,800 officers were removed from flying status.

Excess Inventory of Personal Property

PROBLEM

The committee staff noted that—

> the excess inventory of personal property now being carried in the supply systems of the three services is probably the major deterrent to the attainment of the ultimate goal of all military logistic organizations * * *.

This problem does not include surplus on hand, which is in the process of being disposed of.

COMMENT

An extensive service test at all SAC bases, beginning in 1954 and extending into 1956, confirms the statement by the committee staff. As a result of the SAC test the Air Force has developed a supply improvement program (SIP), designed to determine excesses and to prevent them from accumulating in the future. This program announced in 1956, was formalized in 1957 by the publication of AFR 67–143, Supply Improvement Program. Application of SIP is being intensified throughout the Air Force, through the personal attention of materiel officers in Headquarters USAF, through presentation at important materiel conferences, and by publication of a manual to provide guidelines for practical implementation of the supply improvement policy. The manual, AFM 67–15, Air Force Supply Improvement Program, was published February 17, 1958.

The SAC test and subsequent experience proves the validity of the supply improvement concept. The range of stocks at SAC bases was reduced approximately 40 percent overall during the test and the number of aircraft out of commission awaiting parts dropped from 7.8 percent to 2.5 percent. The 1957 rate was less than 2 percent. The committee staff noted the results of SAC's efforts with the following statement:

> The staff also found that the Strategic Air Command (SAC) has done an excellent job at the SAC bases visited in purging the base inventory excess and obsolete supplies. The inventories at the bases visited were believed to be an almost irreducible minimum.

The Air Force supply improvement program is essentially the application of the SAC supply improvement program to all Air Force bases in the world. It is a necessary preliminary to a thorough overhaul of depot stocks, since purification of base stocks will obviously result in a lessened requirement for backup stocks at depots. Thus, it will be possible to enter into a realistic purging of depot stocks once base stocks have been reduced to reasonable levels.

Under procedures set forth in AFM 67–15 each major command selects and trains supply improvement teams, usually one for each numbered Air Force. Team members including both supply and maintenance specialists are drawn from base and headquarters personnel. Bases are scheduled for participation in the improvement program on a rotational basis with the SIP team spending 6 weeks to

2 months at each base. These teams first review unit stocks and equipment and supplies which are not needed and are purged from the system. Base stocks are likewise purged through examination of every line item in the stock record account. Maintenance panels then determine whether standby levels should be established for those items for which past issues do not justify base stockage. The effect of past and future programs on stockage requirements is considered. Excesses are promptly redistributed or disposed of. The base organization is reviewed and its procedures are streamlined for more efficient and effective supply operation.

Benefits of the program are retained through the imposition of command controls. For example, once optimum stocks have been determined for a particular base, a line-item ceiling is established for that base supply account. Any departure from the line-item ceiling is subject to immediate and careful review to determine whether the variation is justified. Rating systems are used to encourage competition among bases in the attainment of supply efficiency. The base supply report provides the basis for a continuing command evaluation of the success of each base in adhering to supply improvement principles. AFR 67–82, Requesting Assistance from Higher Echelons in Resolving Supply Difficulties, is specifically cited in the manual as the means for reporting to higher echelons of command those difficulties which cannot be resolved at base level. Overall achievements and final evaluation as to the success of the supply improvement program will not be possible until later in the year. However, initial reports on the progress of this program are most promising.

Criticism of the condition of the supply account at Osan-Ni Airbase, K–55, Korea (p. 77, pt. II of the committee staff report) illustrates a situation which it is hoped the supply improvement program will prevent. The situation at Osan, like that in the northeast area, is being corrected by special attention and application of supply improvement procedures.

The figure of $168 million quoted by the committee staff as Air Force identified excess includes only reportable excess Air Force property in process of being held while it is screened with other agencies. This portion of the inventory accounting, monetary, (IAM) report is not intended to report the entire excess property in the Air Force. Air Force reports, RCS: AF S–57 and RCS: AF S–13, are used to report excesses and surpluses on hand at both depots and bases. As of September 30, 1957, these reports showed a total figure of $1,058,871,764. The information contained in these reports is forwarded regularly to the Assistant Secretary of Defense (Supply and Logistics). The $2 billion excess figure referred to by the committee staff is computed excess at Air Force bases and depots of June 30, 1957. Actual screening of this materiel for reutilization normally results in a downward refinement of the excess figure. However, the supply improvement program and the automatic return policy (discussed under separate enclosure) will result in more austere computations of requirements and in expedited determination of actual excesses. Initially, as these programs get underway, excess and surplus property generations in the Air Force can be expected to increase temporarily.

Flying Hour Program—Projected Versus Actual

PROBLEM

The flying hour program is the element most commonly used in the determination of aircraft spares and spare parts requirements. Staff review of three aircraft programs disclosed that the flying hour programs were consistently overstated in relation to actual hours flown for the period. Although experience should have dictated the issuance of progressively more realistic flying hour programs, each succeeding program continued to be overstated. This resulted in the expenditure of funds for spare parts over and above the needs of the program period and the accumulation of materiel in the long-supply inventory. A similar study made by the Air Materiel Command for the F–100 aircraft indicated that approximately $60 million worth of spare parts was unnecessarily procured for fiscal years 1954 through 1956.

COMMENT

It is agreed that a disparity between projected and actual flying hour programs has existed. The current Air Force flying hour program, based on a revised policy which attempts to avoid this situation is believed to be a realistic estimate of our capability to fly, although we realize that this capability does not reflect total requirements for combat aircrew training.

Basic problems of the peacetime flying hour program are to train combat crew personnel and to maintain their standard of training at a proficiency level commensurate with the Air Force mission. The need for rated personnel assigned to aircrew positions poses a critical problem. The Air Force has not been able to fly modern tactical aircraft the quantity of hours a month which is necessary if we are to satisfy the minimum training requirements of combat aircrews.

There are many factors which limit the number of hours an aircraft can be flown each month, such as the complexity of our modern combat aircraft, deficiencies in the skill level of our maintenance personnel, and mechanical and electronic problems which are found consistently in every new aircraft.

In 1956 it became apparent that the new aircraft would require more maintenance man-hours per flying hour and higher skill levels of mechanics if the Air Force were to operate them at the required hours each month. The Air Force experience with reenlistment rates, maintenance problems, and other logistical factors necessitated a change in policy. The policy was changed as explained in a preceding paragraph.

The flying hour program attempts to predict logistical and operational limitations which will restrict the operation of the aircraft. However, it is most difficult to predict these limitations for the next 2 or 3 years. Slippages not anticipated in aircraft production schedules, the modernization of aircraft to incorporate improved components, and changes in types and quantities of Air Force units all have a detrimental effect on the projected flying hour programs and often lead to disparity between projected and actual flying hours. However, this difference is offset to some degree by adjusting the flying hour program so that other aircraft, for which adequate logistical support

can be provided, may be overflown to compensate for some of these deficiencies.

In summary, the many factors noted above have made accurate projection of flying hours extremely difficult and in a number of instances we have failed to fly the hours planned. The current projected hours, based on estimates of our capability to fly, should prove much closer to the actual hours which will be flown.

Failure to Apply Improved Procedures

PROBLEMS

Effective implementation is lacking for sound policies of deferring spares procurements. (Part 11, par. VIII C3 pp. 100–101.)

COMMENT

It is agreed that application of newly developed policies and procedures for requirements determinations by field activities have not always been on as timely a basis as would be desirable. It is true that the items in the four examples mentioned in the staff report were originally designated as operating-type items, and subsequently redesignated as contingency-type items without any action being taken to reduce the quantitative requirements accordingly.

However, at a still later date (August 1957) an abbreviated high-value review board reviewed these items and recommended that they again be changed from contingency back to operational-type items, and that they be so computed, using wear-out rates and service life factors. The recommendation was made based upon the unusual failure rates experienced by these parts.

In January 1958, based on current programing information, the computations were made as recommended and resulted in an increase in gross requirements. Subsequently these items were very carefully reviewed by the using commands, the weapons system managers, and Headquarters AMC personnel at a full high-value review board meeting. Considering the assets on hand and on order, the board then recommended that procurement of the increased requirements be deferred until additional experience on the items had been obtained. Thus, although requirements were computed using wear-out rates and service life factors, our present procedures for reviewing high-value items assured that the increased requirements were deferred and not placed on procurement.

The failure to recompute quantitative requirements in accordance with established policy at the time the items were first reclassified from operational to contingency is particularly regrettable to the Air Force, since a great deal of effort went into the creation of these concepts which are described as sound in the committee report. Nevertheless, ultimate management responsibility must remain with the depot manager and subsequent history confirmed the nonapplicability of the straight "contingency" technique.

In an effort to assure that our policies and concepts are put into effect on a timely basis, a quarterly review system was set up last year. These reviews are conducted by Headquarters USAF, Headquarters AMC and depot personnel, and a great deal of emphasis is placed up-

on correct usage and active implementation of our requirements policies. These teams of qualified personnel actually review in detail the various AMC forms which are used in developing requirements for materiel. In this manner, attention will be directed to prompt effective implementation of the policies.

Automatic Return System

PROBLEM

The committee staff reports that many of the benefits sought to be attained by the Air Force automatic return system are being lost because of the failure of the prime depots to make timely and thorough evaluation of declarations of excess stocks received from the bases. As operated, the system results in unnecessary property movement and costly disposal delays.

COMMENT

Prior to establishment of the automatic return policy, January 1, 1957, Air Force bases were required to report and then hold excess property pending receipt of disposition instructions from AMC depots. This involved additional administrative costs in terms of preparation of excess reports by bases, screening of base excess reports by depots, maintenance of the excess stocks and related records by bases pending receipt of depot disposition instructions, and the use of base warehouse space for storage of excess property.

The criticism by the committee staff would appear to describe the situation that existed prior to adoption of the automatic return policy on January 1, 1957. The new policy authorized the immediate return to appropriate Air Materiel Command depots, without prior notification, of all local excesses of centrally procured, stock listed items, except specific categories requiring special management control, i. e., aircraft engines, vehicles, mobilization reserve property, and so forth. Notwithstanding these exceptions, however, most categories of our centrally procured items are automatically returned to the depot as soon as they become excess.

Under the automatic return system the prime depot issues "excess" change notices which furnish advance information on excess property to all Air Force activities, worldwide. This information is required to be posted immediately to statistical record account cards showing those items to be processed as USAF excess and those to be automatically returned to the AMC depot without further delay. This procedure is intended to preclude the return of items not required, an area of particular concern to the committee staff. The listings also include complete information regarding items in short supply to be returned to the appropriate Air Materiel Command depots regardless of quantity or condition, unless such items are totally beyond repair.

The Air Force automatic return system appears to be in line with DOD Directive 4140.1, dated October 12, 1956, paragraphs IV–E, in that it eliminates unnecessary movement of property and minimizes aggregate inventory holdings. In addition it provides:

(*a*) Immediate return of excesses to depot system at time of generation. This tends to result in items being in better condition than would be the case where the items are stored for varying periods of time at the local bases while awaiting disposition instructions.

(*b*) Reduction of time in holding items while awaiting disposition instructions. This tends to reduce the requirement for warehouse space, warehousement, workload, etc.

(*c*) Reduction in administrative workload at base level by deleting the requirement to prepare excess lists.

(*d*) Reduction of depot workload involved in disposition of base excesses.

(*e*) Reduction of base inventory.

(*f*) Elimination of complaints that serviceable items declared excess at bases were found to be in poor condition upon redistribution to other bases.

(*g*) More even work flow of property, excess to local bases, to the various depots, since returns are made as excesses are generated.

The Air Force believes that the continuing emphasis which it is placing on the automatic return system and the excess change notice should eliminate, in large part, the deficiencies cited by the committee staff.

Utilization of Excesses

PROBLEM

The committee staff reports that the operating personnel who requisition and use property seldom if ever see current and complete listings of excess materiel; the low utilization rate for reportable excesses casts doubt upon the sincerity of activities which screen excess listings; disposal activities should be required to promote the use of nonreportable excesses through procedures which are uniform for all military services; utilization by substitution can be increased; reimbursement requirements for excess stock fund property impede utilization and there is a possibility that redistribution of European depot stocks may result in dumping of materiel on bases which cannot use it.

COMMENT

The Air Force agrees that its operating levels should be advised as to the latest and most complete information on available property within the military services. To assure that this is done, the Air Force has placed its operating levels in the field on direct distribution to receive the Interservice Materiel Utilization Agency (IMUA), formerly the Materiel Redistribution Division (MRD), excess lists. Dissemination of these lists are not limited to stock-control points only. All Air Force commanders at the operating levels are responsible for circulating the excess lists to each using component of the activity. It is believed that the tools are available at the operating level to provide knowledge of available excess. The problem is one of getting the information to the right person at the right time. Letters to reemphasize and point out the importance of utilization are periodically sent to the operating levels. In addition, cross-servicing

operations, incorporated in the interservice supply support program tend to increase knowledge of available assets.

The low utilization rate indicated for excess reportable property can be attributed in part to the continued reporting of property for central screening which has no utilization potential within the military departments. Air Force studies have shown that a considerable amount of property continues to be reported to the IMUA for which experience has shown there is little or no utilization potential. For example, one depot has reported that during the past 2 years there has been no utilization of reported items, excess to the Air Force, in the following classes: (03I) Aircraft fuel, hydraulic, vacuum, oil and deicer systems; (03E) turbo superchargers and parts; (03F) miscellaneous accessories and parts (aircraft); (02I–1) Allison jet engine parts; (11A) bombing equipment, accessories, and parts; and (11B) gunnery equipment, accessories, and parts. In addition, complete aircraft are reported to the IMUA because authorized recipients (i. e., authorized foreign governments and civilian agencies) have requested such information; however, there is little or no utilization potential for such aircraft within the military. The Air Force has requested that consideration be given for revision of the reporting criteria to discontinue the reporting of property where experience has indicated little or no redistribution potential.

With reference to the specific example cited by the staff of failure by the Air Force to utilize "reportable" excess based on a weak or inadequate justification, the Air Force has reviewed its decision to procure the MB–2 generator in lieu of the PE–85–M generator and it is satisfied that its original decision was proper. The PE–85–M generator set is not considered by the Air Force as a suitable substitute for the MB–2 for a number of reasons. One of the reasons for developing the MB–2 specification was the problem of voltage, current, and frequency control. The Air Force, with its current radar equipment, has been forced to tighten up the frequency regulation in this equipment in order to maintain quality power required by these radar sets. Experience has shown that generators built for the Government prior to 1952 did not include the stringent frequency-control requirements which are currently included in Air Force specifications for electronic systems. With regard to the suggestion by the committee staff as to the possible modification of the PE–85–M, transformers required to provide an output on the PE–85–M similar to the MB–2 would cost about $1,500 and would involve about 600 pounds added weight, with a resultant power loss of about 5 to 10 percent. For these reasons, the Air Force generally does not encourage the use of transformers in these small power areas since the initial cost, weight, and subsequent maintenance normally exceeds the benefit gained.

The Air Force concurs in the recommendation by the committee staff that use of nonreportable excess should be facilitated where experience and judgment indicate that it is economical as well as practicable to do so. However, the redistribution potential of nonreportable property is comparatively small as much of this property is peculiar to the owning service, or it is of low dollar value, or it is generally in a poor condition. Experience has indicated that widespread demand for such property is not likely. Furthermore, although a few

instances have been experienced where special displays, screening techniques, or other efforts produced good results, the Air Force does not consider that it would be economical to process all nonreportable excesses in this manner. This is especially true when all the cost factors, i. e., administrative, transportation, packing, and handling are taken into consideration.

In view of the foregoing, the Air Force believes that the decision as to the level of effort to be employed in screening nonreportable property should be based on the individual jugment of those persons most familiar with the handling of such property and the day-by-day efforts expended in processing it for redistribution or disposal. Accordingly, each local commander is charged with the responsibility to determine the value of such a program, as recommended by the committee staff, based on his knowledge of the quantities, condition and type of property involved and its location in relation to potential users.

Substitution is recognized as an effective method for increasing the utilization of personal property. To provide that suitable substitute items will be used in all feasible instances, Air Force stock catalogs indicate which items may be used in place of primary items. This information is also indicated on the supply records of each Air Force depot and base. These data are used to insure substitutes are used whether from Air Force stocks or from excess stocks available within the Department of Defense.

The Air Force also agrees that a clearer definitization, and further liberalization, of reimbursement criteria should do much to encourage interservice transfers of excess stock fund property. However, any change to existing criteria should be uniform among all services, and, to this end, we have recommended to DOD the establishment of a DOD working group, with representation from supply, comptroller, and legal elements of all services, to assist in the revision of this directive. It is the position of the Air Force that all excess property should be transferred between military services without reimbursement, regardless of whether it is stock fund property or not.

To prevent the dumping of depot stocks on bases located in the European area the Air Force issued a number of specific instructions in November 1957. These procedures were applicable to the redistribution and disposition of depot stocks (including Army type items) located in the European area including the United Kingdom and North Africa. The instructions state that:

a. New items found in the location inventories at the Burtonwood, Nouasseur, and Chateauroux depots will be made available to the various European bases for requisitioning to newly established levels in the same manner as known depot assets were originally made available.

b. Items not authorized for processing as USAF excess by stock number will be offered to other Air Force activities in the European area in accordance with command and theater directives.

c. Items authorized for processing as USAF excess by stock number (i. e., authorized for disposal in Air Force catalogs, etc.) will not need to be offered to other Air Force activities in the area.

d. Items which have been processed in accordance with a, b, c, above will be offered to the other services in accordance with the following:

(1) Property reportable to the Interservice Material Utilization Agency (formerly known as the Materiel Redistribution Division),

(*a*) Air Force activities will prepare standard form 120 for reportable items and this information will be forwarded to IMUA, with copies to designated screening points of the other services in the area.

(*b*) IMUA will screen the property within the Zone of Interior.

(2) Property not reportable to the Interservice Materiel Utilization Agency.

(*a*) Air Force activities in the European area will forward listings of USAF excess property having a line item value of from $100 to $5,000 to the Central Air Materiel Area, Europe, at Chateauroux (CAMAE).

(*b*) These listings will contain adequate descriptions of items offered (stock number, nomenclature, quantity, and condition).

(*c*) The central air materiel area, Europe, will circulate the listings received to designated screening points for a period of 45 days. A control number and an issue date will be assigned to each listing circulated and the holding activity will be advised of these control numbers. The issue date will be the date the listing was transmitted by CAMAE to the screening points. If no requirements are made known to CAMAE within 45 days after the issue date, CAMAE will direct the holding activity to proceed with disposition action.

The procedures enumerated above were designed to prevent the dumping of depot excesses on bases in Europe. Furthermore, all operating levels of the Air Force, including the bases in Europe, are provided the opportunity through AF Regulation 67–82, dated March 15, 1957, to bring any supply problem to the attention of higher headquarters, including Headquarters, USAF. To date no report has been received from any base in Europe indicating that the depots in Europe are dumping their excesses on the bases. The importance of AFR 67–82 (Requesting Assistance From Higher Echelons in Resolving Supply Difficulties) was brought to the attention of all major Air Force commanders during the commanders' conference held in January of this year. In addition the regulation and its importance was stressed at the directors of materiel conference held in the Pentagon in February 1958.

Disposal of Foreign Excess

PROBLEM

The committee staff reports that restraints imposed by foreign governments, the Department of State, and the Department of Commerce have restricted disposals abroad, thereby causing huge surplus property buildups.

COMMENT

The Air Force is aware, in detail, of the adverse effect of these restraints upon surplus property disposals overseas. The following paragraphs indicate efforts by the Air Force to remedy the situation.

In the United Kingdom there is no restriction upon the amount of property which may be sold for export. The Air Force in order to exploit this fact, obtained the consent of the Department of State and of the Treasury Department to accept pounds sterling equivalent to $7,500,000 during calendar year 1958 in payment for surplus.

A plan for disposal of Air Force surplus in the United Kingdom, and surplus military assistance program and ex-lend-lease property held by the United Kingdom, is being developed whereby the British Government would handle such disposals as our agent. This should avoid some of the restrictions imposed under the present arrangement, and would free depot personnel sooner. A joint Department of State-Department of Defense message has been dispatched to the United States Embassy, London, giving the Embassy authority to negotiate an agreement along these lines for United Kingdom grant-aid-supported ex-lend-lease property, and for ex-United Kingdom military assistance program property which has been determined to be excess to all known United States requirements. The United States Air Forces, Europe, have been asked to submit a plan for extension of this approach to other types of Air Force surplus located in the United Kingdom. The plan will be submitted through the Department of Defense to the Department of State.

The United States Air Forces, Europe, have been asked to develop similar plans for disposals by other host governments. These will also be forwarded to the Department of State for further action.

The Air Force has sought and received the concurrence of the United States Embassy in the Philippines that only sales in excess of $1 million (acquisition cost) will be submitted for Department of State clearance. The proposal awaits the approval of the Department of State. The Air Force agrees with the committee staff that similar action, worldwide, is desirable. It should be noted that Public Law 152, 81st Congress, as amended, requires coordination of foreign excess sales with the Department of State. It is desired to point out that while the Air Force and the Navy effect coordination with the local embassy, and the Army submits notice of proposed sales to the Department of State, there is actually little difference in the procedure. It is our understanding that State has advised all United States embassies to transmit such proposals to the Department in Washington for approval.

As a result of an Air Force request, Department of Defense and service personnel explained disposal problems caused by restrictions upon importations into the United States at a meeting, in July 1957, to representatives of the Commerce Department's Business and Defense Services Administration. The Commerce position at the time was that they are only administering section 402 of Public Law 152, and do not have the authority to liberalize the law. The Department of Defense proposed a revision to the law which would permit imports of foreign excess, but subject them to the same taxes, customs, and duties applicable to material produced abroad and imported into the United States. We have been advised that discussions along this line are continuing between Department of Commerce and the Department of Defense representatives.

Methods of Sale

PROBLEM

In discussing the various methods of sale available for disposition of surplus property, the committee staff suggested that the merits of auction sales have been overemphasized. It recommended greater use, when appropriate, of spot bid, negotiated, and retail sales.

COMMENT

The Air Force believes that the sealed bid, aution, spot bid, negotiated and retail methods of sale all have their place in the disposal of Air Force surpluses. Constant effort is directed toward determining the most effective sales method for each type and quantity of property involved. For example, a number of tests have been conducted to provide information showing comparable returns from auction sales versus sealed bid sales. (These tests revealed a number of deficiencies in both methods, as applied to specific categories of property, and corrective action was taken in subsequent offerings of such property.)

Regarding the auction type of sale, more than a hundred such sales, conducted over a period of 4 years, have provided valuable information with respect to the categories of property that should be disposed of by this method. The years of experience in selling by auction have also provided excellent guidance in auction merchandising practices and techniques. During the past calendar year (1957) the Air Force has conducted 26 auctions involving property having acquisition cost of $42 million with a net return, after costs of sale, of approximately 7 percent. This recovery of 7 percent for calendar year 1957 exceeds the average return from auctions conducted over the previous 3-year period by 43.7 percent. In view of the increased recovery rate, the Air Force believes that the auction sale is often a proper method for disposing of surplus property. Therefore, the Air Force plans to continue the use of auctions in those cases where experience has shown that they are likely to bring a higher monetary return in comparision to other methods of sale.

The Air Force concurs with the findings of the committee staff that greater use should be made of the spot-bid method of sale. From past experience, the spot-bid method has been found to be most effective in disposing of small generations of salvage and usable property having low dollar value. Further, its simplicity of operation appears to have found favor with the average surplus buyer, local individuals, and small business, resulting not only in greater attendance at such sales but in a corresponding increase in the monetary return. The spot-bid type of sale is in wide use today and is constantly being improved upon. A broad step in this direction was the recent experimental "site bid sale" of complete aircraft. This was a variation of the spot-bid sale. It was advertised nationally and used in an attempt to inject a greater degree of buyer competition than has been obtained in the past from use of the sealed-bid method. In view of a downward trend of aircraft sale prices, the results of this sale were considered to be excellent.

The Air Force agrees with the committee staff that negotiated sales are not devoid of competition, and that the authority to negoiate sales should be broadened to permit greater use of this important method of disposal. The Air Force also concurs in the suggestion by the committee staff that greater use of negotiation should be made with manufacturers to reacquire the the products which they produced. In this regard, the Air Force often solicits the advice and services of the original manufacturer or supplier in lotting and merchandising the material which he furnished the Air Force. In addition, every effort is made to invite the original manufacturer to bid on items which he produced.

With respect to sales in overseas areas, authority delegated from the Secretary's office was recently redelegated by the Director of Supply and Services to the various overseas commanders to negotiate sales of foreign excess property without advertising. This authority covers negotiated sales of foreign excess to private individuals as well as government-to-government sales.

The delegated authority to negotiate sales of foreign excess without referral to the Secretary of the Air Force for approval, has shortened considerably the time formerly required to dispose of such property. Negotiated sales are often desirable in these areas because of the nature of the property, its location, the potential market and monetary considerations, since the fair value code is used as a basis for arriving at a fair price. Use of the fair value code normally results in prices which are higher than those received from competitive-bid sales. These sales are coordinated with the United States embassies or diplomatic missions located in the country where the property is to be sold and also in the country of the purchaser. Currency clearance is also obtained by the overseas major air command prior to release of property.

The Air Force agrees with the committee staff that no fruitful avenues of disposal should be overlooked, that retail sales should be liberalized, and that the methods used should be uniform among the respective military departments. The Air Force has advocated such a policy for some time. On December 27, 1957, the Department of Defense isued specific uniform instructions on the extent to which this type of sale could be used. Implementation by the Air Force of the new Department of Defense policy on retail sales was immediate.

Prior to the release of the overall Department of Defense policy on retail sales, the Air Force authorized use of this method in certain overseas areas on a case-by-case basis under the authority and approval of the Secretary of the Air Force.

General Merchandising Principles

PROBLEM

The committee staff reports a need for improvement, at some installations, in general merchandising principles and sales techniques, including the coordinated disposal of end items and spare parts and greater use of consolidated sales.

COMMENT

The Air Force agrees with the committee staff that there is a continuing need to seek improvement in merchandising principles and sales techniques. Consequently, the Air Force is constantly on the alert for better ways and means of improving its disposal sales. One of the ways whereby the Air Force seeks to accomplish improvement in its disposal function is through the periodic publication of Air Materiel Command disposal letters. These letters present guidance to the various disposal activities by suggesting improvements, noting exceptionally good practices employed by the various disposal activities, and providing information on lotting, descriptions, catalog preparation, display, use of advertising, and the selection of sales methods.

As an example of the type of information contained in these letters and, in line with the statement by the committee staff that wider use of newspapers, radio and television appears desirable, AMC disposal letter No. 57–17, dated March 26, 1957, pointed out the importance of using "periodic notices and announcements in newspapers, or on television or radio" to advertise disposal sales. Similarly, AMC disposal letter No. 57–20, dated April 3, stressed the desirability of an advanced plan of action to assure that all necessary presale arrangements are made in the correct time sequence. Included as one of the steps, in a sample plan of action which was attached to the letter, was the need to coordinate with the public information officer for the necessary newspaper, radio, or television announcements.

The information contained in the AMC disposal letters is based on experience gained from all the activities of all Air Force disposal organizations. In fact the Air Force recognizes that these organizations, being closer to the day-to-day problems in disposal, are in the best position to question policy and to suggest improved procedures. Therefore, all disposal activities have been advised that any suggestions for improvement on current disposal procedures will be welcomed by higher echelons of command and, where practicable, these suggestions are adopted as official policy.

The Air Force also seeks to improve its general merchandising principles and sales techniques by means of air materiel area assistance visits to disposal activities. These visits are an important adjunct to other training since they provide assistance and guidance to the local disposal personnel in determining the market to be solicited and in selecting the specific sales methods and techniques to be used in connection with various sales.

The Air Force has also recognized the need for closely coordinating the disposal of spare parts concurrently with the end item in order to obtain the maximum return from sales of the end item. An example of our progress in coordinating such sales is illustrated by the disposal and sale of the C–82, YC–125, YC–122, YC–97, and C–47 aircraft and supporting spare parts. Support for the above aircraft was made available to the potential buyers concurrent with the sale of the aircraft. Recognizing the advantages of coordinating the sale of aircraft and supporting parts, the Air Force is currently organizing a central aircraft disposal control agency at San Bernardino Air Materiel Area. In addition to other responsibilities, this agency will be

charged with working with other Air Force selling activities to establish, to the extent practicable, coordinated schedules for the sale of aircraft and applicable parts.

Current Air Force techniques for computing spare parts requirements provide for the timely disposition of spare parts support concurrent with the end item leaving the active inventory. The degree of effectiveness in this area is directly related to the timely receipt and stability of projected Air Force operating programs, against which spare parts support is projected. One of our major problems has been that of coping with the necessary changes in Air Force programs. Another problem involved in purging the supply system of spares support concurrent with the end item leaving the active Air Force inventory concerns the support we are obligated to maintain for the MAP countries. A supply improvement program has been designed to rid the supply system of spares support for aircraft phasing out of the program. In further recognition of this problem, the Air Force has established the weapons system phaseout procedure (WSPOP). The primary purpose of this procedure is to assure minimum retention of essential spare parts requirements to support other end items remaining in the inventory.

In addition, the commanders of the air materiel areas have been given the authority to designate the activities at which disposal sales will be coordinated or consolidated whenever it is determined that such operations are economically feasible and desirable at activities within their jurisdiction. Where operations at Air Force activities are consolidated, the disposal officer of the activity transferring the operation is relieved of all duties peculiar to that particular operation with the exception of staff supervision required to properly conserve, segregate, and deliver property to the designated consolidating activity. In several metropolitan areas we are consolidating sales offerings to effect economy of operations. For example, Maywood AFB, Norton AFB, McClellan AFB and Brookley AFB, are consolidating sales offerings on surplus property generated by various Army activities and contractor plants, as well as our own Air Force activities, located in close proximity to these bases.

Similarly, Air Force commanders in overseas areas have the authority to consolidate or coordinate sales in their geographical areas and also to provide for agreements with other military services whenever a determination is made that such consolidation would be the more desirable arrangement. The Air Force encourages such agreements for consolidation of sales. Examples of such agreements are the sales centers in Tokyo, Japan, and Frankfurt, Germany.

Disposal Facilities, Scrap Handling, and Processing Equipment

PROBLEM

The committee staff reports that many disposal activities were conducted in widely scattered, undesirable areas; covered storage space provided for excess and surplus property ranged from marginal to

inadequate; purging stocks of unrecognized surplus and relocation of national stockpile material would provide the necessary space for excess and surplus stocks; availability and use of scrap handling and processing equipment varies widely, even at similar installations; and use of equipment for metal scrap baling, shearing, and aluminum sweating is prohibited at many installations.

COMMENT

During the past 3 years, all excess and surplus property processing operations have been the responsibility of the property disposal officer at the 15 major Air Force depots. Air Force Manual 67–1 has been recently revised to place the same responsibility on all base disposal officers worldwide, effective July 1, 1958. This change will eliminate duplicate accounting and reporting systems and will confine all excess and surplus processing responsibilities to a single group of people who can be fully trained to understand the complete disposal cycle. Regarding the recommendation by the committee staff that efficient operations require that all excess and surplus activities be combined in a single area that is readily accessible to the public, the Air Force has service-tested a centralized disposal receiving operation for the past 18 months which incorporates revised procedures for the processing of excess and surplus property. As a result of this test, complete revision of our disposal operating procedures has recently been accomplished. This revision establishes a disposable property account combining excess and surplus property into one basic financial accounting and reporting system. It also provides one type of turnin document to be utilized exclusively for the turnin of all property to disposal activities. The Air Force considers that these changes are in line with the recommendation of the committee staff and their adoption should result in more efficient operations.

The need for greater protection of surplus property during the preparation, storage and consummation of sales is recognized as necessary to obtain the maximum monetary return for such property. However, higher priority items in the military construction program have precluded the construction of disposal facilities. A survey was conducted last summer to review the requirements for covered storage of surplus property awaiting sale in Air Materiel areas and Air Force depots. Based upon the survey, steps have been taken to utilize transitory and readily assembled type structure for protection of disposable property. These prefabricated transitory all-steel shelters are both economical and portable. They are also specifically designed to protect supplies and equipment from exposure and deterioration. These shelters are normally erected over existing paved or hard-stand areas at disposal facilities, thereby minimizing construction costs. These shelters have a further advantage in that they are frequently erected over existing stacks of material. Additional portable-type storage facilities have been or are being erected at 10 large Air Force activities for the processing and protection of surplus property. Loca-

tions and the square feet of additional storage space authorized are as follows:

Middletown Air Materiel Area (MAAMA)	72,000
Mobile Air Materiel Area (MOAMA)	108,000
Oklahoma City Air Materiel Area (OCAMA)	64,000
Ogden Air Materiel Area (OOAMA)	81,600
San Antonio Air Materiel Area (SAAMA)	49,200
San Bernardino Air Materiel Area (SBAMA)	76,800
Warner Robins Air Materiel Area (WRAMA)	84,000
Dayton Air Force Depot	57,760
Rome Air Force Depot	24,000
Wright-Patterson Air Force Base	5,600
Total	622,960

Of the total facilities being erected, 116,000 square feet consist of 40 by 100 excess prefab storage buildings that were in Air Force stock. Utilization of these buildings will save approximately $138,300 in new procurement costs.

With regard to the Olmsted Air Force Base complex, i. e. Middletown Air Materiel Area, including Marietta Air Force Station, East Middletown warehouse area, and Olmsted proper, it is true that a considerable quantity of excess and surplus stocks are stored in the open. Furthermore, there is, at the present time, approximately 300,000 square feet of open space in use, at these installations to store active Air Force stocks which should be stored in warehouses. With the completion of the new warehouses at Olmsted the covered storage-space problem at these installations will be greatly alleviated. In addition, the erection of 72,000 square feet of prefabricated steel transitory shelters authorized for this base will also assist materially in providing covered space for property awaiting disposal.

The Air Force also has a quantity of quonset-type buildings (20 by 48) in Air Force stock, which are being made available for erection and use by base disposal officers. The notice of availability of these buildings for disposal activities was disseminated to field activities on January 24, 1958.

The Air Force believes that erection of these facilities, in line with the recent decision to combine all excess and surplus property functions will greatly improve its disposal operations.

Rewarehousing existing stocks and disposal of other stocks not as yet declared as surplus will, of course, provided some additional warehouse space.

However, Air Force warehouse programs have provided for the construction of only a portion of the computed depot warehouse requirements. For example, less than one-half of the fiscal year 1952–56 projected AMC depot warehousing deficit, based on fiscal year 1951–54 computations was approved for construction. In the meantime, the deficit has been covered, in part, by utilizing warehousing facilities of other Government agencies as well as those of commercial companies. At the present time, only a limited amount of leased space is being used by AMC depots and current planning provides for the release of this space by June 30, 1958.

In connection with the suggested transfer of national stockpile materials to other locations, the Secretary of Defense in his letter dated June 28, 1948, to the three military departments established

the policy on the storage of strategic and critical materials. This policy is still in effect and it provides that "the military services have a definite responsibility to provide storage space for strategic and critical materials, and will discharge it as a function just as important as the basic military function for which any base or depot is established. This requires budgetary consideration and continuous advance planning by depot personnel." Accordingly, since the inception of the stockpile program, the Air Force has defended its requests to Congress for warehousing and storage funds on the basis that a portion of its storage space would be committed to the storage of stockpile materials.

Respecting the staff's comments on scrap handling and processing equipment, facilities of this type must be justified under criteria set forth in Department of Defense Directive 4100.15, dated April 27, 1955, subject: Commercial and Industrial Type Facilities. Under this program, use of Government-owned and operated commercial and industrial type facilities are not authorized except when it can be clearly demonstrated that private enterprise cannot perform the service or provide the products as necessary to meet current or mobilization requirements, or that in the execution of the military mission, operation by the Government is a necessity. At the present time the Air Force has justified to OSD's satisfaction the operation of 5 aluminum sweaters and 1 metal baler. Any additions or changes in location of existing facilities require specific approval of the Office of the Secretary of Defense. Recently, approval was obtained from OSD to disestablish an aluminum sweater at McClellan Air Force Base, where demilitarization work has diminished, and to establish a sweater at Davis-Monthan which will be operated by commercial sources who have received award of military equipment for scrap.

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